



ORANGE COUNTY FIRE AUTHORITY AGENDA

Budget and Finance Committee Meeting

Wednesday, January 8, 2014

12:00 Noon

Orange County Fire Authority Regional Fire Operations and Training Center

1 Fire Authority Road

Room AE117

Irvine, California 92602

Elizabeth Swift, Chair

Randal Bressette, Vice Chair

Sam Allevato Trish Kelley Jerry McCloskey Al Murray Steven Weinberg

Bruce Channing - Ex Officio

Unless legally privileged, all supporting documentation and any writings or documents provided to a majority of the Budget and Finance Committee after the posting of this agenda, which relate to any item on this agenda will be made available for public review in the office of the Clerk of the Authority located on the 2nd floor of the OCFA Regional Fire Operations & Training Center, 1 Fire Authority Road, Irvine, CA 92602, during regular business hours, 8:00 a.m. - 5:00 p.m., Monday through Thursday, and every other Friday, (714) 573-6040. In addition, unless legally privileged, all supporting documentation and any such writings or documents will be available online at <http://www.ocfa.org>.

This Agenda contains a brief general description of each item to be considered. Except as otherwise provided by law, no action or discussion shall be taken on any item not appearing on the following Agenda. Supporting documents, including staff reports, are available for review at the Orange County Fire Authority Regional Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA 92602 or you may contact Sherry A.F. Wentz, Clerk of the Authority, at (714) 573-6040 Monday through Friday from 8:00 a.m. to 5:00 p.m.

If you wish to speak before the Budget and Finance Committee, please complete a Speaker Form identifying which item(s) you wish to address. Please return the completed form to the Clerk of the Authority. Speaker Forms are available on the counter noted in the meeting room.



In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, you should contact the Clerk of the Authority at (714) 573-6040. Notification 48 hours prior to the meeting will enable the Authority to make reasonable arrangements to assure accessibility to the meeting.

CALL TO ORDER

PLEDGE OF ALLEGIANCE by Director Allevato

ROLL CALL

PUBLIC COMMENTS

Any member of the public may address the Committee on items within the Committee's subject matter jurisdiction but which are not listed on this agenda during PUBLIC COMMENTS. However, no action may be taken on matters that are not part of the posted agenda. We request comments made on the agenda be made at the time the item is considered and that comments be limited to three minutes per person. Please address your comments to the Committee as a whole, and do not engage in dialogue with individual Committee Members, Authority staff, or members of the audience.

MINUTES

- 1. Minutes for the November 6, 2013, Budget and Finance Committee Meeting**
Submitted by: Sherry Wentz, Clerk of the Authority

Recommended Action:
Approve as submitted.

CONSENT CALENDAR

- 2. Monthly Update – Orange County Employees' Retirement System**
Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:
Receive and file the report.

DISCUSSION CALENDAR

- 3. Monthly Investment Report**
Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

- 4. Updated Broker/Dealer List**
Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:
Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee Meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- Raymond James
- UBS Financial Services

5. Use of External Investment Manager

Submitted by: Patricia Jakubiak, Treasurer

Recommended Action:

Review the proposed agenda item and provide direction to staff on whether the Budget and Finance Committee recommends the OCFA's Treasurer to:

1. Continue to invest funds internally, or
2. Hire an external investment manager and pursue modifications to the Investment Policy to provide more flexible guidelines.

6. FY 2013/14 Mid-Year Financial Report

Submitted by: Lori Zeller, Assistant Chief, Business Services Department

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Direct staff to implement all necessary budget adjustments to allocate \$3,000,000 of the \$6,134,590 of available unencumbered funds identified in the 2012/13 annual financial audit to the OCFA's Unfunded Actuarial Accrued Liabilities with the Orange County Employees Retirement System, and allocate any remaining funds to the OCFA's Capital Improvement Program for capital needs.
2. Direct staff to implement all necessary budget adjustments to issue the 2013/14 equity payment to the City of Irvine in the amount of \$5,976,162, in accordance with the Second Amendment to the Amended Joint Powers Agreement.
3. Direct staff to implement necessary budget adjustments to unfreeze specified positions for the Community Risk Reduction and Business Services Departments, as explained herein.
4. Direct staff to return to the Board of Directors in March 2014, for approval of all additional budget adjustments discussed herein for the FY 2013/14 budget.

REPORTS

No items.

COMMITTEE MEMBER COMMENTS

ADJOURNMENT – The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, February 5*, 2014, at 12:00 noon.

*Regular meeting moved forward by one week, due to the holiday.

AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted in the lobby and front gate public display case of the Orange County Fire Authority, Regional Fire Operations and Training Center, 1 Fire Authority Road, Irvine, CA, not less than 72 hours prior to the meeting. Dated this 2nd day of January 2014.

Sherry A.F. Wentz, CMC
Clerk of the Authority

UPCOMING MEETINGS:

- **Special Board of Directors Meeting (Closed Session) Thursday, January 9, 2014, 5:30 p.m.
- **Special Claims Settlement Committee Meeting Thursday, January 23, 2014, 5:00 p.m.
- **Special Executive Committee Meeting Thursday, January 23, 2014, 5:30 p.m.
- Board of Directors Meeting Thursday, January 23, 2014, 6:30 p.m.
- Budget and Finance Committee Meeting Wednesday, February 5, 2014, 12:00 noon
- **Special Meetings, due to the time change.

MINUTES ORANGE COUNTY FIRE AUTHORITY

Budget and Finance Committee Meeting
Wednesday, November 6, 2013
12:00 Noon

Regional Fire Operations and Training Center
Room AE117
1 Fire Authority Road
Irvine, CA 92602

CALL TO ORDER

A regular meeting of the Orange County Fire Authority Budget and Finance Committee was called to order on November 6, 2013, at 12:00 p.m. by Chair Swift.

PLEDGE OF ALLEGIANCE

Director Kelley led the assembly in the Pledge of Allegiance to our Flag.

ROLL CALL

Present: Sam Allevato, San Juan Capistrano
Randal Bressette, Laguna Hills
Trish Kelley, Mission Viejo
Jerry McCloskey, Laguna Niguel
Elizabeth Swift, Buena Park
Steven Weinberg, Dana Point

Absent: Al Murray, Tustin

Also present were:

Fire Chief Keith Richter
Assistant Chief Lori Zeller
Assistant Chief Brian Stephens
Assistant Clerk Lydia Slivkoff

Deputy Chief Craig Kinoshita
Assistant Chief Dave Thomas
Clerk of the Authority Sherry Wentz

PUBLIC COMMENTS (X: 12.02B3)

Chair Swift opened the Public Comments portion of the meeting.

Stephen Wontrobski, Mission Viejo resident, commented on his concerns regarding the LSL audit, the bidding process, and procurement department irregularities. He provided a letter, which is on file in the Office of the Clerk. (F: 15.02A1)

Chair Swift closed the Public Comments portion of the meeting.

MINUTES

1. Minutes for the October 9, 2013, Budget and Finance Committee Meeting
(F: 12.02B2)

On motion of Director Kelley and second by Director Allevato, the Committee voted unanimously to approve the minutes of the October 9, 2013, Budget and Finance Committee Meeting, as submitted.

CONSENT CALENDAR

2. Approval of the Meeting Schedule for the Budget and Finance Committee for Calendar Year 2014 (F: 12.02B)

On motion of Director McCloskey and second by Vice Chair Bressette, the Committee voted unanimously to approve the proposed 2014 Meeting Schedule for the Orange County Fire Authority Budget and Finance Committee.

3. First Quarter Financial Newsletter – July to September 2013 (F: 15.07)

On motion of Director McCloskey and second by Vice Chair Bressette, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

DISCUSSION CALENDAR

4. Monthly Status Update - Orange County Employees' Retirement System
(F: 17.06B)

Treasurer Tricia Jakubiak provided an overview of the Monthly Status Update on the Orange County Employees' Retirement System.

Fire Chief Richter indicated OCERS had a change in its Compensation Philosophy that provides pay increases for Executive and Management employees, and noted its inconsistency with planned sponsor philosophies. Assistant Chief Zeller provided an overview on the potential financial impacts to OCFA and contract cities, should OCERS modify its policy for amortization of unfunded pension liabilities.

Minutes

OCFA Budget and Finance Committee Meeting

November 6, 2013 Page - 2

On motion of Vice Chair Bressette and second by Director McCloskey, the Committee voted unanimously to direct Fire Chief Richter and Assistant Chief Zeller to submit letters to OCERS in opposition to its Compensation Philosophy.

On motion of Vice Chair Bressette and second by Director Kelley, the Committee voted unanimously to receive and file the report.

5. Monthly Investment Report (F: 11.10D2)

Treasurer Tricia Jakubiak provided an overview of the Monthly Investment Report and current global market activity.

On motion of Vice Chair Bressette and second by Director Allevato, the Committee voted unanimously to direct staff to place the item on the agenda for the Executive Committee meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the report.

6. Annual Statement of Investment Policy and Investment Authorization (F: 11.10D)

Treasurer Tricia Jakubiak provided an overview of the Annual Statement of Investment Policy and Investment Authorization.

On motion of Director Kelley and second by Director Allevato, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Review and approve the submitted Investment Policy of the Orange County Fire Authority, to be effective January 1, 2014.
2. Pursuant to Government Code Sections 53601 and 53607, renew delegation of investment authority to the Treasurer for a one-year period, to be effective January 1, 2014.

On motion of Director Weinberg and second by Director Kelley, the Committee voted unanimously to direct staff to return to the Budget and Finance Committee in January to discuss the option of using an outside investment manager.

7. Audited Financial Reports for the Fiscal Year Ended June 30, 2013 (F: 15.06)

Finance Manager/Auditor Jim Ruane introduced Rich Kikuchi, Partner with Lance, Soll & Lunghard, LLC, who provided an overview on the Audited Financial Reports for the Fiscal Year Ended June 30, 2013.

On motion of Director McCloskey and second by Director Kelley, the Committee voted unanimously to:

1. Confirm the calculations' consistency with the OCFA's *Assigned Fund Balance Policy*.
2. Direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and approve the reports.

8. FY 2012/13 Backfill/Overtime and Total Earnings/Compensation Analysis (F: 15.11)

Finance Manager/Auditor Jim Ruane provided a PowerPoint presentation on the FY 2012/13 Backfill/Overtime and Total Earnings/Compensation Analysis.

Chair Swift left the meeting at this point (1:17 p.m.). Vice Chair Bressette assumed the chair.

Stephen Wontrobski, Mission Viejo resident, provided public comments in opposition to the FY 2012/13 Backfill/Overtime and Total Earnings/Compensation Analysis stating the report's data concerning the Top 10 Earners was inconsistent with the Grand Jury compensation data.

On motion of Director Allevato and second by Director Weinberg, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors receive and file the report.

9. 2013 Update – Fiscal Health Plan & Financial Stability Budget Policy (F: 11.10B)

Assistant Chief Lori Zeller provided an overview of the 2013 Update – Fiscal Health Plan & Financial Stability Budget Policy.

On motion of Director Weinberg and second by Director Allevato, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors adopt the submitted policies.

10. Refunds for Unverified Hazardous Materials Disclosure Inspections – Follow-up Actions (F: 18.11A1)

Assistant Chief Lori Zeller provided an update on the Refunds for Unverified Hazardous Materials Disclosure Inspections–Follow-up Actions.

On motion of Director Weinberg and second by Director Allevato, the Committee voted unanimously to direct staff to place the item on the agenda for the Board of Directors meeting of November 21, 2013, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Direct staff to process a second mailing to eligible businesses that have not yet claimed refunds, using updated addresses where feasible.
 - a. Work with the Orange County Health Care Agency (HCA) for availability of more recent address information relating to these businesses.
 - b. Provide the list of outstanding eligible businesses, sorted by city, to our member agencies for any assistance that they may be able to provide in locating current addresses for these businesses.
 - c. Utilize light-duty staff to assist in searching public information that may lead to new addresses for the outstanding businesses.
 - d. Utilize the existing address on file if updated addresses cannot be located for businesses.
 - e. Issue the second letters to these eligible businesses on or about January 15, 2014.
2. Authorize a cut-off date of April 30, 2014, whereby the value of any remaining unclaimed refunds will be transmitted to the HCA for use in the existing Hazardous Materials Disclosure (HMD) program, thereby benefitting the existing participating HMD businesses.
3. Direct staff to work with the HCA in developing potential actions for disposition of the \$935,870 in funds that resulted from FY 2007/08 HMD fee reductions that were approved by the OCFA Board of Directors after the HMD billings had been processed.
 - a. Potential actions should be brought back to the Budget and Finance Committee and Board of Directors, for further discussion and action.

REPORTS (F: 12.02B6)

No items.

COMMITTEE MEMBER COMMENTS (F: 12.02B4)

Director Weinberg commended OCFA firefighters, and the combined efforts of public agencies, for a job well done during a fire in the City of Dana Point.

Vice Chair Bressette indicated OCFA firefighters are top notch, and noted the citizens of the County of Orange are very safe.

Director Kelley thanked Assistant Chief Zeller and Division Chief Wells for providing a presentation on the Second Amendment to the Amended Joint Powers Agreement to the Mission Viejo City Council. She also indicated the city received a letter from resident Stephen Wontrobski regarding his concerns with equity.

Minutes

OCFA Budget and Finance Committee Meeting

November 6, 2013 Page - 5

Director Allevato indicate the Second Amendment to the Amended Joint Powers Agreement was approved as a Consent Item at the November 5, 2013, San Juan Capistrano City Council meeting.

Director McCloskey indicated while OCFA may have administration issues, it is still an outstanding organization.

ADJOURNMENT – Vice Chair Bressette adjourned the meeting at 1:42 p.m. The next regular meeting of the Budget and Finance Committee is scheduled for Wednesday, January 8, 2014, at 12:00 noon.

Sherry A.F. Wentz, CMC
Clerk of the Authority

**CONSENT CALENDAR – AGENDA ITEM NO. 2
BUDGET AND FINANCE COMMITTEE MEETING
January 8, 2014**

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **Monthly Update - Orange County Employees' Retirement System**

Summary:

This agenda item is submitted to provide an update regarding steps taken during November and December 2013, to improve the Orange County Employees' Retirement System's (OCERS) financial policies, procedures, and practices.

Recommended Action:

Receive and file the report.

Background:

In 2010 and 2011, accounting issues were identified at OCERS impacting actuarial calculations of the value of assets and liabilities attributable to the various plan sponsors. The total accounting values at OCERS were correct, but the attribution of values to individual plan sponsors required adjustment. A large amount of work was performed by OCERS and plan sponsor staff members to correct the issues, and ongoing improvement plans were established by OCERS. Following these events, the OCFA's Budget and Finance Committee directed OCFA staff to provide routine updates to the Committee regarding financial activities occurring at OCERS.

Actions Taken/Financial Policies & Practices – November and December 2013

OCERS BOARD OF RETIREMENT November 18, 2013:

The OCERS Board reconsidered (1) the actuarial funding policy previously adopted at the June 17, 2013 meeting, and (2) the investment rate of return assumption previously adopted on December 5, 2012.

ACTUARIAL FUNDING POLICY (AMORTIZATION)

During the June 17, 2013 meeting, the OCERS Board voted 5-4 to support Alternative #3 of the actuarial funding policy alternatives presented by The Segal Company (see table below). The Board also decided to apply the policy changes on a prospective basis for UAAL established post December 31, 2012. During the meeting, Segal stated that the preferred range for amortization is now 15-25 years, and they would no longer recommend a 30-year amortization for future actuarial funding policies. They further indicated that the plan starts accruing negative amortization at about 20 years and beyond. Along with the modification of the investment return assumption in December, the actuarial funding alternatives were designed to ensure that future contributions, plus interest and current assets, are sufficient to fund all benefits and to enhance the accuracy and credibility of the actuarial calculations. This item was put back on the agenda at the request of Treasurer Freidenrich, who was on the prevailing side of the prior vote in June.

Following the discussion at the meeting on November 18, 2013, the Board selected Alternative #2 to amortize all prior and future UAAL layers over 20 years (see table below).

Source	Alternative #3 Previously Approved June 17, 2013	Alternative #1	Alternative #2 Approved November 18, 2013
Actuarial Gains or Losses	15	15	20
Assumption or Method Changes	25	20	20
Plan Amendments	15 or less	15 or less	15 or less
Early Retirement Incentive Plans	Up to 5	Up to 5	Up to 5
Actuarial Surplus	30	30	30

ASSUMED EARNINGS RATE

During the December 5, 2012 meeting, the OCERS Board voted 5-4 in favor of changing the system's investment return assumption from 7.75% to 7.25%. Since the investment return assumption is used by the OCERS' actuary to calculate future system earnings, a reduction in the factor increased unfunded liabilities by an estimated \$935 million, bringing the total system Unfunded Accrued Actuarial Liability (UAAL) to \$5.7 billion for the year ended December 31, 2012. During that meeting, the actuary provided two options for the OCERS Board to consider; (1) the 7.25% rate which had a greater than 50% chance of being met, and (2) a 7.50% rate which had a lower than 50% chance of being achieved by the plan.

The Board asked that the topic of the portfolio's assumed earnings rate also be put on the agenda for reconsideration at the November 18, 2013 meeting; however, no changes were made to this assumption.

2014 BUDGET

The Board approved the 2014 budget, excluding the issue of OCERS administrative manager's salary ranges and the 2014 merit pool. Director Ball asked staff to prepare a response to the letter sent by OCFA's Fire Chief (Attachment 2A) before the Board considers the two issues. OCERS' response to the County CEO's letter on OCERS' Compensation Philosophy is provided as Attachment 2B, and their subsequent response to the OCFA Fire Chief's letter is provided as Attachment 2C.

OCERS INVESTMENT FEES

On November 15, 2013, the Orange County Register published an article entitled, "*While fees climbed, county pension earnings lagged*" (Attachment 3). OCERS' response to the article is included as Attachment 4.

OCERS BOARD OF RETIREMENT December 16, 2013:

ACCELERATED UAAL PAYMENTS DISCUSSION

The Segal Company requested input from the Board regarding the actuarial method to be used to account for accelerated UAAL payments when plan sponsors have multiple layers of UAAL to pay off. While there is no issue with additional payments in general, the question arises as to whether a plan sponsor can target their payment to a particular layer of liability, in order to effect a greater immediate reduction in the contribution rate. Normally, OCERS would apply additional dollars across each layer of existing liability equally. Following their discussion on December 16, 2013, the Board approved a policy to apply accelerated UAAL payments to the shortest layer of liability first (Attachment 5).

LONG TERM COST-IMPACT OF 20 YEAR REAMORTIZATION POLICY

There had been a question among the OCERS' Trustees as to whether the decision on November 18 to reamortize all existing UAAL layers to 20 years had saved money in the long run, or actually increased long term costs. Segal reported that the decision saved \$625 million (Attachment 6).

OCERS FUNDING POLICY – PAYROLL BASIS FOR UAAL PAYMENTS

Required contributions from plan sponsors to pay their UAAL obligation is predicated on the Board's adopted actuarial assumption that salary will grow by 3.75% annually. A question was raised regarding what occurs if a plan sponsor's payroll does not grow as anticipated. It was explained that at the end of the year, a lower amount of employer contributions would have been collected than anticipated, which is a concern with regard to paying off the UAAL. That shortfall is added back to the existing UAAL at the end of the year and it becomes a component of the plan sponsor's UAAL in the future.

During the November 18 OCERS Board consideration of its Actuarial Funding Policy, Mr. Angelo of The Segal Company briefly touched on a possible funding policy, a process or mechanism that could be employed to ensure that the shortfall (as explained above) does not lead to an increase in the UAAL (Attachment 7). An option under consideration is to charge the employer the greater of the UAAL contribution rate on actual payroll for the fiscal year or the UAAL payment dollar amount as determined in the valuation. After discussion, the Board delayed this item until March to give OCERS' staff and plan sponsors time to assess the impacts.

OCERS DIRECT EMPLOYEES SALARY RANGES AND 2014 MERIT POOL

While the Compensation Philosophy was previously approved, the Board reconsidered the possible modification of the 23 OCERS-direct employees' salary ranges. It was explained that bringing the salary ranges current would entail reducing some ranges to better match the industry, while expanding others. Separately, the Board considered a merit pool for staff in the amount of \$67,000 (Attachment 8).

The Board approved moving the salary ranges to the market level and approved a base-building merit pool of \$67,000, which would equate to a 2% increase if distributed equally to all employees, or not-to-exceed 4% for any single employee if the increases vary by employee.

OCFA staff will continue to monitor actions taken by OCERS to improve its financial policies and practices, and will report back in February regarding progress made during the next month.

Impact to Cities/County:

Regarding OCERS' changes to the amortization period, no *material impact* is expected on OCFA's finances or the finances of OCFA's member agencies. The action taken for prior layers of liability is very similar to the Accelerated Paydown Plan that OCFA recently adopted for paying its unfunded pension liability. Further, any changes to the amortization of future UAALs will apply to the 2013 actuarial valuation, which will not impact retirement contribution rates until July 2015.

Staff Contacts for Further Information:

Lori Zeller, Assistant Chief/Business Services Department

LoriZeller@ocfa.org

(714) 573-6020

Tricia Jakubiak, Treasurer

TriciaJakubiak@ocfa.org

(714) 573-6301

Attachments:

1. Review of Actuarial Funding Policy by The Segal Company (on file with the Clerk)
2. (A) Letter to OCERS Board from OCFA's Fire Chief, November 14, 2013
(B) Letter from OCERS to County CEO, November 8, 2013
(C) Letter from OCERS to OCFA Fire Chief, December 13, 2013
3. Orange County Register Article, OCERS Investment Fees, November 15, 2013
4. OCERS' Response to Orange County Register Article, November 26, 2013
5. Accelerated Funding of UAAL by The Segal Company (on file with the Clerk)
6. Long-term Cost Impact of 20-year Amortization by The Segal Company, December 3, 2013
7. OCERS Memo on Funding Policy-Payroll Basis for UAAL Payments, December 12, 2013
8. OCERS Memo on Direct Employees Salary Ranges and 2014 Merit Pool, December 2, 2013



ORANGE COUNTY FIRE AUTHORITY

P.O. Box 57115, Irvine, CA 92619-7115 • 1 Fire Authority Road, Irvine, CA 92602

Keith Richter, Fire Chief

(714) 573-6000

www.ocfa.org

November 14, 2013

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

Re: OCERS Compensation Philosophy and Proposed Increase in Salary Ranges

Dear Board Members:

On November 6, 2013, the Orange County Fire Authority's (OCFA) Budget and Finance Committee directed me to send a letter to OCERS conveying my concerns on the recently approved Compensation Philosophy and the proposed increase in salary ranges.

While it is understandable that OCERS wishes to attract and retain qualified employees, we do not agree that a change in OCERS' Compensation Philosophy is required in an economy with an unemployment rate over 7% and 11 million people looking for full time jobs. The salary and benefits provided by your agency for the 24 OCERS employees would be considered generous by many.

Last year, the OCERS' Board voted to have OCERS employees start to contribute to their retirement plan, and employees were given a corresponding salary increase to cover the cost. Having the Compensation Philosophy and the proposed increase in salary ranges just a year later causes concern. Several of the larger plan sponsors, including the County and OCFA, have publicly expressed our concerns at your meetings. We are working diligently to hold costs down within our own agency and have no projected pay increases for several more years into the future. Therefore, we were disappointed that the OCERS Board decided to move forward with the Compensation Philosophy, a proposed increase in salary ranges, and a merit pool for 2014.

Our concern is not just for 2014 but the following years when OCERS' employees could receive three different types of salary increases: cost of living adjustment (COLA), merit pool pay, and incentive pay. We are also very much aware that the salary and benefit costs are included in the administration fees paid by the plan sponsors.

In 2012, OCERS' total pension administration cost was \$11.5 million. At your October meeting, CEM Benchmarking presented the results of their study comparing OCERS to other retirement systems and found OCERS' administrative costs were \$326 per active and retired member when the peer average was \$131. Even looking at a smaller universe of just California retirement systems, OCERS was \$326 compared to \$301 of the other systems. The report highlighted that OCERS has a higher cost per Full Time Employee (FTE).

It is not our intent to dictate how OCERS runs its agency; however, we are hoping that as the Board makes decisions that directly impact the costs borne by the plan sponsors, that it considers all aspects of the decisions including the current economic climate and the impact to the plan sponsors and their employees.

Thank you for your consideration. If you have any questions, please contact me at (714) 573-6010 or Lori Zeller, Assistant Chief, at (714) 573-6020.

Sincerely,



Keith Richter
Fire Chief

cc: Steve Delaney, OCERS CEO
Lori Zeller, OCFA Assistant Chief/Business Services



Serving the Active and Retired Members of:

CITY OF SAN JUAN
CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY
CEMETERY DISTRICT

ORANGE COUNTY
CHILDREN & FAMILIES
COMMISSION

ORANGE COUNTY
DEPARTMENT OF
EDUCATION (CLOSED TO
NEW MEMBERS)

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY IN-HOME
SUPPORTIVE SERVICES
PUBLIC AUTHORITY

ORANGE COUNTY LOCAL
AGENCY FORMATION
COMMISSION

ORANGE COUNTY PUBLIC
LAW LIBRARY

ORANGE COUNTY
SANITATION DISTRICT

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

SUPERIOR COURT OF
CALIFORNIA, COUNTY
OF ORANGE

TRANSPORTATION
CORRIDOR AGENCIES

UCI MEDICAL CENTER AND
CAMPUS (CLOSED TO
NEW MEMBERS)

November 8, 2013

Mike Giancola, County Executive Officer
County of Orange
County Executive Office
333 W. Santa Ana Blvd
Third Floor
Santa Ana, Ca 92701-4062

Dear Mike,

Thank you for taking the time to review and provide your feedback on OCERS' proposed compensation philosophy for its direct employees (executive & management positions). By the content of your letter it became clear that some of our intentions and provisions in that proposed philosophy were misunderstood, and your letter helped point that out.

We reviewed your letter with the Board's ad hoc Compensation Committee (composed of four members of the OCERS Board of Retirement) on October 3, and they concurred with you that the philosophy could be read to suggest more than was intended, subsequently directing OCERS staff to simplify the compensation philosophy document.

I appreciate that you took time to meet with me and my executive team on October 17 to allow us to personally thank you for your input, and to explain the change in direction as directed by the ad hoc Compensation Committee.

We worked diligently with our Board to revise the proposed philosophy into a policy document that meets our intended purposes while addressing the concerns brought to our attention. Our intent was, and continues to be, to have the following points included in our policy:

- No automatic adjustments to the ranges or actual salaries
- Salary adjustments to OCERS direct staff will continue to be based on performance.
- Merit pool amounts will be reviewed annually, such reviews will consider current economic and financial conditions that impact OCERS and will require Board of Retirement approval.

- Salary ranges will be reviewed by staff regularly to ensure they stay competitive with the market and any necessary adjustments to salary ranges will require Board of Retirement approval.

Those goals were expressed in a simplified draft document that was adopted by the Board of Retirement when they met on October 21. [See attached copy.]

With the adoption of the compensation philosophy, the ad hoc Compensation Committee in its final directive to staff before dissolving itself, its task having been completed, was to move the issue of OCERS salary ranges to the full Board as part of the 2014 OCERS budget consideration.

Currently, like most governmental entities, OCERS' compensation to its managers and executives (myself excluded, as my compensation is handled in public session directly by the Board of Retirement) is set based on established ranges. The current ranges for our direct employees were approved by the Board of Retirement in August 2007. Movement of salaries within the established ranges occurs annually in connection with performance evaluations. Our new compensation philosophy introduces the merit pool process allowing for adjusting individual salaries based on their performance (OCERS direct employees are not represented).

The Board of Retirement met at the end of last week (October 25) for further discussion on the proposed ranges, as well as manager salaries for 2014 as part of their annual budget workshop. I provided a brief overview of what was discussed at that meeting in my November 5 summary memo to you and all stakeholders. I repeat it here, and will be in touch with you to obtain your thoughts and feedback, as the proposal below will go to the OCERS Board for further consideration when they next meet on November 18:

“Using the “Revised 2014 Salary Ranges Schedule” [attached], staff recommended that in light of the County of Orange having raised their administrative manager salary ranges by 16% since 2007, that OCERS advance partially along that route by raising administrative manager salary ranges by 9% (see column entitled “9% Maximum CPI Range Increase”).

There were some exceptions to making a blanket 9% increase across the Board for all 23 OCERS managers. Not wanting to get away from current comparative salary ranges, staff recommended using the column entitled “Public Sector Data”, which contains no private industry salary information, to serve as a filter. If a 9% increase in any single manager's range would exceed the “Public Sector Data”, then that range would be capped at the “Public Sector Data” level. That limited a number of ranges to increasing by less

than 9%, and even caused two individual ranges to go negative. In addition, for three key positions, staff recommended that the accompanying "CALAPRS Average" column be used to set the ranges, and that would cause those three ranges to increase by slightly more than 9%."

In addition to ranges, the Board of Retirement also considered actual management salary options for 2014. Again, from my November 5 summary:

"What is the COLA for employees for 2014?"

0%. OCERS managers will not get a COLA, and they do not have steps.

What is the merit pool for 2014?"

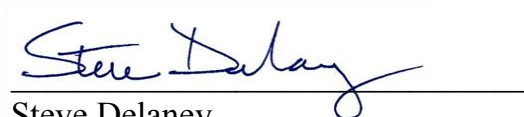
\$67,000. That figure was reached by calculating 2% on all existing manager salaries, the approximate rate of current inflation. If approved, the Board has directed that no one individual can get more than a 4% merit increase, which of course will mean that some managers will get less than 2%.

What is the incentive pay for 2014?"

While OCERS has a P4P incentive program similar to the County of Orange, staff suggested that the Board not fund that program in 2014. We are not canceling the program, but believe it best to focus on our first year of a Merit Pool and then revisit the P4P program in future years as the economy recovers."

My goal is and has always been to have open and honest communication with all of OCERS' plan sponsors, and most certainly with the County, our largest employer. My door is always open and I will make myself available anytime to field any questions you or the Board of Supervisors may have.

Sincerely,



Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System

cc: Trustees, OCERS Board of Retirement

THE ORANGE COUNTY REGISTER

While fees climbed, county pension earnings lagged

By MIKE REICHER
2013-11-15 13:16:35



Orange County's public pension system poured money into hedge funds, private equity and other so-called alternative investments during the past six years, but the returns have proven mediocre despite costing millions in fees.

This year alone, the fund is expecting to pay \$54.5 million to alternative-investment managers, according to a budget briefing document obtained by the Orange County Register.

But in financial reports through the first half of the year, the pension system disclosed none of those fees. Officials said they are following standard government reporting practices.

Indeed, the Orange County Employees Retirement System is not alone.

As pension funds nationwide struggle to make up large unfunded liabilities, public officials have shifted billions of dollars to risky investments like hedge funds instead of traditional stocks and bonds. Fund leaders say it's a way to diversify their portfolios, and they argue for patience with new investments.

But experts say the results, in most cases, have been lackluster earnings for public pension funds and a boon for Wall Street money managers.

"This is a huge feeding frenzy," said Edward Siedle, whose Florida forensic firm Benchmark Financial Services investigates pension funds. "Never have the fees been as expensive and egregious and opaque ... and you can't justify the performance."

Orange County's two main alternative classes – hedge funds, and a mix of commodities, energy and other investments – earned 3.4 percent and 7.8 percent, respectively in 2012, while the S&P 500 earned 13.4 percent. The OCERS real estate fund did better than other alternatives, earning 12.6 percent.

The overall performance of OCERS' \$10.7 billion fund has lagged behind other public pension systems during the three years ending December 2012. Among 88 of the largest pension systems in the country, OCERS ranked 86, according to a Register analysis of data provided by Pensions & Investments, an industry trade publication.

OCERS reported total returns of 8.1 percent, while other funds, such as the Sacramento, San Bernardino and San Diego county pension systems, notched 9.9 percent and above. Fairfax County, Virginia topped the rankings with earnings of 17 percent.

Siedle, a former Securities and Exchange Commission attorney, estimates that OCERS missed out on more than \$125 million of profit during 2012.

Some of those foregone earnings went to the investment managers' pockets, as hedge funds and private equity firms often take a cut from the returns.

"It's like running a race with a 10-pound bag tied to your leg," Siedle said. "You can't win if your fees are handicapping you."

Reducing fees is now a focus for new OCERS Chief Investment Officer Girard Miller. On Wednesday, he expects to unveil a plan to pool alternative investments with other California pension systems and then bargain for lower fees.

"We take it very seriously," Miller said about alternative-investment fees.

Alternative-investment firms command enormous fees compared with those of traditional managers. Typical of the OCERS hedge funds, Bridgewater Associates charges 1.5 percent of the assets it manages, plus 20 percent of profits if it surpasses a certain benchmark.

That is more than 180 times the rate charged by the OCERS basic U.S. stock market fund, a Blackrock index, which charges 0.008 percent of the assets alone.

Just a portion of the total fund investment fees are reported on the OCERS comprehensive annual financial reports. In 2012, for instance, the fees were about \$51 million, according to the budget documents, but the CAFR said \$32 million.

This happens, in part, because some managers invest in smaller funds, and those smaller funds take a second layer of fees that is hidden in the lower return rate, OCERS officials say.

Pension systems follow Governmental Accounting Standards Board practices, which require all fees to be broken out, unless they are "not readily separable." A GASB representative said it is up to an agency's accountant to decide whether such fees should be disclosed, although the fundamental guidance is to show the fees separately.

But opacity is common in the public pension industry, says Siedle, who uncovered tens of millions in obscured fees at the Rhode Island pension fund.

"They have strategically decided to not disclose these fees," Siedle said.

OCERS Chief Executive Officer Steve Delaney said officials knew that the fees were high but, until Miller was hired in 2012, had not taken the time to quantify the full costs.

Miller, formerly a top executive at Janus Capital Group and Fidelity Investments, said the fees are sometimes justified: "I'm happy to pay for performance when I get it."

But he acknowledges "there's a fair criticism" that hedge funds haven't performed very well recently.

GROWING PIECE OF THE PIE

The notion that high-cost and high-effort investment strategies often flop is not a new one. In a friendly wager, Warren Buffett bet hedge fund manager Protégé Partners \$1 million in 2008 that a stock market index, like the S&P 500, would get better returns over 10 years than the hedge fund.

By the beginning of 2013, the stock index had earned 8.7 percent, while Protégé's hedge funds had earned 0.1 percent.

But members of the OCERS board have shifted more and more of their fund into alternatives. As of September, OCERS had \$3.2 billion of its \$10.7 billion portfolio in alternatives, which have ballooned from 6 percent of the total fund in 2006 to 30 percent today.

That does not include real estate investments, which most industry observers also consider to be alternatives.

Including real estate, OCERS has 39 percent of its portfolio in alternatives. The national average among

state pension funds, by comparison, is 24 percent, according to investment adviser Cliffwater.

"I don't know how it morphed to that size," said county Supervisor John Moorlach, who served on the OCERS board until 2006. "What was the logic?"

Moorlach, who identified problems with the Orange County Investment Pool before its collapse triggered the county's 1994 bankruptcy, said he grows nervous, in general, if such an asset class is more than one-seventh of a portfolio.

Contacted individually to discuss the fund's performance, eight of the 10 OCERS board members either did not respond or declined a request for an interview. Some cited a board policy that directs media inquiries to a spokesperson. The policy also says board members are supposed to "respect the decisions and policies of the board ... even if they may have opposed them."

Member Frank Eley, who represents general county employees on the board, was one of the few who would comment. Eley said he expects the alternatives to perform better over time.

"I'm not concerned, because I think you have to build a system that lasts for all times," Eley said. "The only thing that saved us in 2008 was having the most diversified portfolio."

Miller said the recent OCERS earnings doldrums can be attributed to the diverse asset mix. OCERS isn't as tied to the stock market as some other funds, so it didn't fully reap the market gains when public companies rebounded. Also, some of the alternative funds may not hit their full stride for another three to four years, Miller said.

Over the five-year period, when its alternative investments performed better, OCERS finished sixth out of the 88 largest systems.

Either way, a traditional portfolio of 60 percent stocks and 40 percent bonds is antiquated, Miller said. With the Federal Reserve keeping interest rates low, an average long-term bond target return of 5 percent "can't work mathematically," he said. Instead, Miller advocates for diversifying risk with alternative investments.

Siedle doesn't buy the argument.

"How do high-risk investments reduce the risk?" he said. "If I give \$100 million to a seasoned poker player in Vegas, am I reducing my risk?"

Contact the writer: mreicher@ocregister.com



Serving the Active and Retired Members of:

CITY OF SAN JUAN
CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY
CEMETERY DISTRICT

ORANGE COUNTY
CHILDREN & FAMILIES
COMMISSION

ORANGE COUNTY
DEPARTMENT OF
EDUCATION (CLOSED TO
NEW MEMBERS)

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY IN-HOME
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PUBLIC AUTHORITY

ORANGE COUNTY LOCAL
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COMMISSION

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ORANGE COUNTY
SANITATION DISTRICT

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

SUPERIOR COURT OF
CALIFORNIA, COUNTY
OF ORANGE

TRANSPORTATION
CORRIDOR AGENCIES

UCI MEDICAL CENTER AND
CAMPUS (CLOSED TO
NEW MEMBERS)

Wednesday, November 26, 2013

Lori Zeller
Orange County Fire Authority

Dear Lori,

I am writing to you and each of our plan sponsors and major labor groups to respond to the Orange County Register article of November 15 entitled "While fees climbed, pension fund earnings lagged."

The Chairs of the OCERS Board as well as the Investment Committee have written a letter to the editor of the Register in response, and we understand that will be published later this week. In the meantime, I wanted to write to each of you individually and assure you that contrary to the article's suggestions, the OCERS fund is continuing to be managed and directed by the OCERS Board of Retirement in the same competent and cautious manner you have seen in action for the past many decades.

Frankly the article lacked balance, focusing on very recent market experience to suggest that the OCERS Board's long term approach to investing is not fulfilling its fiduciary obligations. In fact the best summary of what the OCERS Board is doing today is found buried near the end of the article where one finds almost matter-of-factly thrown out this statement: "In the five-year rankings, when its alternative investments performed better than stocks, OCERS finished sixth out of the 88 largest systems."

The article seemed to be trying to make three basic points (following each is an OCERS' observation):

1. That OCERS has not been pursuing equity (stock) investments as aggressively as other public pension funds over the past three years as the stock market continues its meteoric rise.

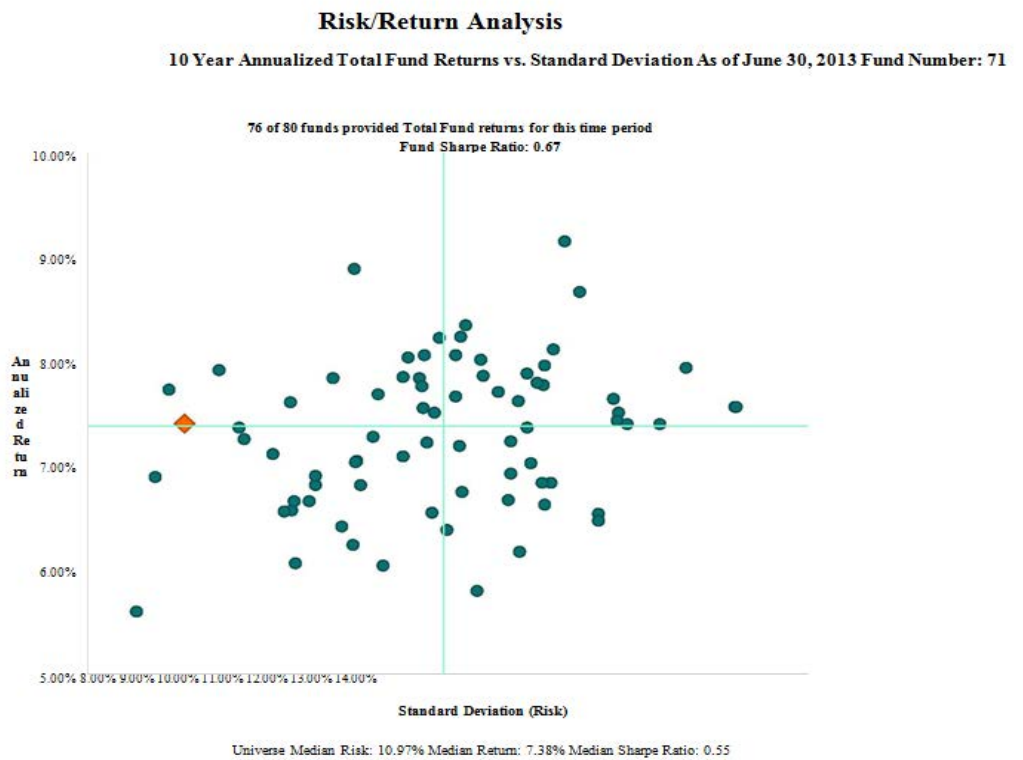
One of the primary lessons to learn from OCERS' history is that our asset allocation is, by design, different from many if not most other pension plans. For over 30 years OCERS has tried to avoid big losses in down market years, even if it means lower returns in up market years. A major example of how this approach to investing has served us can be seen by looking at the returns for 2008. In a year when the Dow was down approximately 40% and other plans such as CalPERS lost over 30%, OCERS lost "only" 21%. That means that the OCERS' asset allocation held less risk than other plans and avoided about \$1 billion in losses that year. Of course it also means that in up market years such as 2013,

OCERS will earn less than many others, and thus open ourselves to possible criticism for not investing like so many others.

A recent report by R. V. Kuhns, a pension consulting firm, comparing the 20 SACRS systems and 60 other public pension plans showed that OCERS was one of the best public funds among their clients when returns were adjusted by the amount of risk. OCERS' portfolio risk level was much lower than other plans even though our longer term returns were comparable.

In the chart below, OCERS is the gold diamond. The farther to the left of the axis, the less risk a plan is taking to obtain portfolio returns.

1



Funds with less history than the specified time period will not appear in the chart

RVKuhns
▶▶▶ & ASSOCIATES, INC.

2. That OCERS in seeking diversification protection through alternative investments (such as real estate, private equity, hedge funds) is paying higher fee costs with no real advantage having been attained.

To better protect the benefits promised to plan participants and retirees, our Board has prudently exercised fiduciary responsibility to build a portfolio that can better withstand a number of economic scenarios and conditions and not just a bull stock market. In order to preserve capital from the risks of inflation, recession and geopolitics it is both necessary and appropriate to diversify into nontraditional

asset classes to mitigate those risks to retiree's purchasing power and the plan's financial position. They are essentially insurance policies against unfavorable economic and market conditions that are clearly possible in the minds of any thoughtful investor or citizen. Our hedge fund and private equity portfolios have done quite well compared to common stocks over full market cycles, with the entire portfolio outperforming its actuarial targets during all periods mentioned in the OC Register article.

3. That OCERS has been paying high fees, and not fully reporting those fees.

As the article acknowledged, OCERS has taken the lead nationally in pursuing strategies to disclose and reduce fees. Our fee policy is one of the nation's most comprehensive and aggressive. Our open budgetary disclosure of our money managers' underlying fund fees is one of the most transparent in the nation, not the irregularity that the reporter seemed to suggest. While governmental accounting standards do not allow the Comprehensive Annual Financial Report to include underlying fund-level expenses in the audited financial statements, OCERS has taken the initiative to be one of the first pension plans in the country to provide the level of transparency we have reported during our budget process in the past two years.

With Board encouragement, our staff is spearheading a statewide effort to improve our bargaining power with the external managers of these more-complex and costly strategies. Following guidance from our Board at its October budget workshop where fees were openly discussed, our chief investment officer has initiated a comprehensive study of these strategies and fees, which we will be reviewing in detail in coming months as part of our routine, ongoing due diligence and prudent oversight of our \$11 billion investment program.

I think you may find it instructive to read the questions posed by the reporter following his initial visit to our offices, and the responses we provided [attached as an Appendix]. You will find a much more balanced story in reading those responses than that found in the Register article.

I hope that this information proves helpful in clarifying any doubts that may have arisen out of the OC Register article regarding the outstanding work that has been performed by the OCERS Board of Retirement on our member's behalf.

Please feel free as always to call or write with any questions, comments or concerns you may have.



STEVE DELANEY

CEO

Orange County Employees Retirement System

APPENDIX

Questions posed by Mike Reicher of the OC Register.

Answers provided by OCERS staff.

- You mentioned that investing in alternatives diversifies the portfolio and essentially lowers risk. But hedge funds, private equity and commodities are well known to be more risky investments than traditional. Someone I spoke with compared this to sending a seasoned gambler to Las Vegas with \$100 million, and saying that is somehow reducing your risk. How do you reconcile those concepts?

Hedge funds, private equity and other alternatives are included in the portfolio to reduce overall risk, not increase it. The nature of portfolio construction is that a basket of “individually risky” components that have offsetting return characteristics (negative or low correlations) will actually reduce the overall portfolio risk, and that is what OCERS has done. Independent studies that compare OCERS with other California pension plans over 5 and 10 years make this risk-adjusted return relationship very clear.

We believe your readers would be better served if you do not rely on a sensational statement by an unnamed source; in the interests of responsible journalism we would instead ask that you and your editor attend our November 20 Investment Committee meeting where professional, non-sensationalist reports will be delivered by investment and risk experts on the portfolio allocations, the risk reduction properties of multiple asset classes, and OCERS’ responsible efforts to deploy and manage alternative investments prudently and our trailblazing work to mitigate fee drag.

- In 2012, the Russell 3000 earned 16.4% and the S&P 500 earned 13.4%, but the OCERS absolute return, real return and private equity investments earned between 3.4% and 7.5%. They are doing even worse this year. The OCERS alternatives’ three-year averages also underperformed the stock market. We’re talking about hundreds of millions of dollars forgone. Why are the alternatives good investments?

We fully expect that some or even many of the alternatives investments will underperform the stock market when it’s running full speed from the bottom of a deep recession. The exact opposite would have been the case in 2008-09. If we had invested more in stocks as you suggest, going into the great recession, without the diversification from our alternative investments, our portfolio would have suffered very badly. We would have

lost hundreds of millions of dollars if we had followed the strategy your question suggests, instead of diversifying as we did back then. To give you some simple examples that are more representative, OCERS absolute return and private equity managers outperformed the Russell 3000 over the seven year period (ending 9/30/13) that includes the Great Recession by 100 to 200 basis points respectively. Our private equity investments have outperformed the Russell 3000 by 200 basis points over the past 10 years.

- For the J-curve [regarding Private Equity returns], what would you say is the rough timeframe when you would expect to see desired returns?

“I would expect it to take another 3-4 years before we see “full cycle” results on our older vintages, and as you know, it takes around 7-10 years on average for a Fund of Funds (FoF) program to achieve expected returns on a given vintage year, because of the time lag between commitment at the FoF level, to the general partners (who run the underlying funds) and then to the actual underlying companies. So it’s a long time frame.

It occurred to me that there is an old saying in the venture capital business that you can quote me on, in this regard:

“The lemons always ripen first.” - which is one of the reasons that it takes so long for private equity returns to be realized in full. The winners are typically held to full maturity to capture the maximum “internal rate of return”, and those are typically a small but important minority of the total portfolio of a given Venture Capital firm. Even buyout funds, which would be a segment -- but not necessarily the majority of our holdings in a given multi-strategy FoF require 5 or more years before harvesting begins in most cases.” – Girard Miller, OCERS CIO

- OCERS is set to pay more than \$80 million in investment management fees this year, much of it going to hedge fund and private equity managers. Considering they performed so poorly, how are they worth that amount?

We focus on total return net of fees. To better understand the rationale for investing in alternatives, and the OCERS asset allocation policies that our board adopted upon the advice of our independent consultants at NEPC, I encourage you to view their 2012 and 2013 asset allocation studies which are quite comprehensive and informative. Those two NEPC asset allocation reports are attached as PDF documents.

- The CAFR lists investment management fees in the \$30 million range, when they're closer to \$80 million. Why didn't OCERS publically disclose the full investment management fees?

OCERS does. This information was available at the board's budget workshop in October and is available for public review at our upcoming budget presentation. Governmental accounting standards do not allow the CAFR to include underlying fund-level expenses in the audited financial statements, and OCERS has taken the initiative to be one of the first pension plans in the country to provide the level of transparency we have reported during our budget process in the past two years. We would be happy to include appropriate total-expense information if the GASB were able to provide a viable accounting standard for public pension plans.

- In the 3-year returns, OCERS ranks near the bottom of the Pension & Investments list of 100 largest public pension funds. Considering that was the time OCERS ramped up in alternatives, what do you think about the poor performance compared to other pension funds?

Again, OCERS performance is not poor as you claim, when we look at full market and business cycles and not just a short-term economic recovery period that follows deep losses. We have always had a more-conservative mix than other public pension plans that place bigger bets on the stock market. In strong up-markets like the most recent three year bull market, it is normal to return less than the other funds. When you compare our returns over longer periods that include recessions, we usually compare quite favorably on a risk-return basis.

- Including real estate, OCERS has about 40 percent of its portfolio in alternatives. The national average among state pension funds, by comparison, is 24 percent, according to investment advisor Cliffwater. During our interview, you said OCERS had a relatively low level of alternatives compared to other systems, but this would seem to contradict. What would you say about that?

"I will stand corrected if the data show otherwise. The general rule has always been that the larger plans like Oregon, Washington, CalPERS and CalSTRS etc. have been more heavily invested in hedge funds and private equity than the smaller plans. However in the past two years there has been significant migration toward broader use of new strategies like private lending, absolute return and real return instruments which OCERS has also implemented under our 2012-13 asset allocation plans. So I would have to wait for new contemporaneous data to know if we now stand at a representative level compared with others larger or the same size as OCERS." – Girard Miller, OCERS CIO



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Andy Yeung, ASA, MAAA, FCA, EA
Vice President & Associate Actuary
ayeung@segalco.com

VIA E-MAIL AND USPS

December 3, 2013

Mr. Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Re: OCERS Amortization Schedule as of December 31, 2012

Dear Steve:

As requested, we have enclosed the payment schedule for OCERS' \$5,676 million in UAAL determined as of December 31, 2012 amortized using the policy previously approved by the Board for the December 31, 2012 valuation. Since a new amortization policy was approved by the Board on November 18, 2013 for the December 31, 2013 valuation, we have also illustrated the impact of that new policy when it is applied to the outstanding balance of the December 31, 2012 UAAL in the December 31, 2013 valuation.

Old Amortization Policy used in the December 31, 2012 Valuation

The total UAAL as of December 31, 2012 was \$5,675,680,000. The amortization schedule for the UAAL, consistent with that used in the 2012 valuation is provided in Attachment A. In Attachment A, we have only provided the amortization schedule for the total UAAL but we can provide detailed information on each layer of UAAL (on which the total UAAL contribution rate in the 2012 valuation was based) upon request.

New Amortization Policy Effective with the December 31, 2013 Valuation

The Board has approved a new amortization policy effective with the December 31, 2013 valuation. Included as part of that policy is to combine the outstanding balances of all the past layers of UAAL used in developing the total UAAL contribution rate in the 2012 valuation into a single layer. That combined outstanding balance of the total UAAL will then be reamortized over a single period of 20 years.

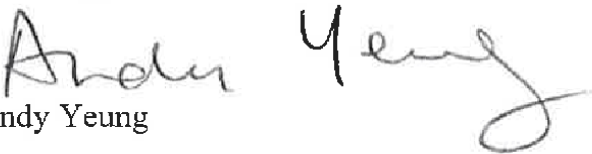


For illustration purposes, we have taken the outstanding balance of the UAAL as of December 31, 2013 (i.e., \$5,671,952,775 which is the UAAL balance at the end of year 1 in Attachment A) and amortized that over 20 years. Those results are provided in Attachment B.

Under the old amortization policy, the interest paid would have totaled \$6,854 million while under the new amortization policy the interest paid will total \$6,229 million. Therefore, it may be observed that the adoption of the new amortization policy will result in savings of \$625 million.

Please let us know if you have any questions.

Sincerely,


Andy Yeung

MYM/kek
Enclosures

cc: Brenda Shott

Attachment A
Orange County Employees Retirement System
Unfunded Actuarial Accrued Liability Amortization Schedule
using the Different Amortization Periods Corresponding to those used in the December 31, 2012 Valuation
(Based on UAAL from the December 31, 2012 Valuation)

Annual Interest Rate: 7.25%
Annual Payroll Inflation: 3.75%

<u>Year</u>	<u>Beginning of Year UAAL Balance</u>	<u>Annual Payment</u>	<u>Interest Paid</u>	<u>Principal Paid</u>	<u>End of Year UAAL Balance</u>
1	\$ 5,675,680,000	\$ 402,109,646	\$ 398,382,421	\$ 3,727,225	\$ 5,671,952,775
2	5,671,952,775	417,188,758	397,620,783	19,567,975	5,652,384,799
3	5,652,384,799	432,833,336	395,692,262	37,141,074	5,615,243,725
4	5,615,243,725	449,064,586	392,470,573	56,594,013	5,558,649,712
5	5,558,649,712	465,904,508	387,818,710	78,085,799	5,480,563,913
6	5,480,563,913	483,375,927	381,588,112	101,787,816	5,378,776,097
7	5,378,776,097	501,502,525	373,617,766	127,884,758	5,250,891,339
8	5,250,891,339	520,308,869	363,733,240	156,575,629	5,094,315,709
9	5,094,315,709	523,461,583	352,278,763	171,182,820	4,923,132,889
10	4,923,132,889	548,658,605	339,046,861	209,611,744	4,713,521,145
11	4,713,521,145	571,817,991	323,095,267	248,722,724	4,464,798,421
12	4,464,798,421	530,914,540	306,395,874	224,518,666	4,240,279,755
13	4,240,279,755	502,474,796	291,045,096	211,429,700	4,028,850,055
14	4,028,850,055	516,306,773	275,265,671	241,041,102	3,787,808,953
15	3,787,808,953	485,450,012	258,795,785	226,654,228	3,561,154,726
16	3,561,154,726	461,030,043	243,159,177	217,870,866	3,343,283,860
17	3,343,283,860	478,318,670	226,800,119	251,518,551	3,091,765,309
18	3,091,765,309	496,255,620	207,980,476	288,275,144	2,803,490,165
19	2,803,490,165	514,865,206	186,474,059	328,391,147	2,475,099,018
20	2,475,099,018	534,172,651	162,036,489	372,136,162	2,102,962,856
21	2,102,962,856	554,204,125	134,403,810	419,800,315	1,683,162,540
22	1,683,162,540	574,986,780	103,291,000	471,695,780	1,211,466,760
23	1,211,466,760	209,220,798	81,013,029	128,207,770	1,083,258,991
24	1,083,258,991	217,066,578	71,462,279	145,604,299	937,654,691
25	937,654,691	225,206,575	60,640,692	164,565,883	773,088,808
26	773,088,808	195,182,389	49,688,126	145,494,263	627,594,546
27	627,594,546	183,723,560	39,513,225	144,210,336	483,384,210
28	483,384,210	190,613,194	28,833,449	161,779,745	321,604,465
29	321,604,465	197,761,189	16,871,470	180,889,718	140,714,746
30	140,714,746	146,153,557	5,438,811	140,714,746	-
Total		\$ 12,530,133,394	\$ 6,854,453,394	\$ 5,675,680,000	

Note: Totals may be slightly off due to rounding

Attachment B
Orange County Employees Retirement System
Unfunded Actuarial Accrued Liability Amortization Schedule
using a Combined 20-year Amortization Period Effective with the December 31, 2013 Valuation
(Based on UAAL from the December 31, 2012 Valuation)

Annual Interest Rate: 7.25%
Annual Payroll Inflation: 3.75%

<u>Year</u>	<u>Beginning of Year</u> <u>UAAL Balance</u>	<u>Annual</u> <u>Payment</u>	<u>Interest</u> <u>Paid</u>	<u>Principal</u> <u>Paid</u>	<u>End of Year</u> <u>UAAL Balance</u>
1	\$ 5,675,680,000	\$ 402,109,646	\$ 398,382,421	\$ 3,727,225	\$ 5,671,952,775
2	5,671,952,775	396,406,528	398,298,056	(1,891,528)	5,673,844,302
3	5,673,844,302	411,271,773	397,950,747	13,321,026	5,660,523,277
4	5,660,523,277	426,694,465	396,482,362	30,212,103	5,630,311,174
5	5,630,311,174	442,695,507	393,770,525	48,924,982	5,581,386,192
6	5,581,386,192	459,296,589	389,682,450	69,614,138	5,511,772,054
7	5,511,772,054	476,520,211	384,074,123	92,446,087	5,419,325,967
8	5,419,325,967	494,389,719	376,789,432	117,600,287	5,301,725,680
9	5,301,725,680	512,929,333	367,659,222	145,270,111	5,156,455,569
10	5,156,455,569	532,164,183	356,500,293	175,663,890	4,980,791,679
11	4,980,791,679	552,120,340	343,114,308	209,006,031	4,771,785,648
12	4,771,785,648	572,824,853	327,286,630	245,538,222	4,526,247,425
13	4,526,247,425	594,305,785	308,785,066	285,520,719	4,240,726,706
14	4,240,726,706	616,592,251	287,358,518	329,233,733	3,911,492,973
15	3,911,492,973	639,714,461	262,735,541	376,978,920	3,534,514,054
16	3,534,514,054	663,703,753	234,622,781	429,080,972	3,105,433,081
17	3,105,433,081	688,592,644	202,703,305	485,889,339	2,619,543,742
18	2,619,543,742	714,414,868	166,634,805	547,780,063	2,071,763,679
19	2,071,763,679	741,205,426	126,047,671	615,157,754	1,456,605,925
20	1,456,605,925	769,000,629	80,542,914	688,457,715	768,148,211
21	768,148,211	797,838,153	29,689,942	768,148,211	-
22	-	-	-	-	-
23	-	-	-	-	-
24	-	-	-	-	-
25	-	-	-	-	-
26	-	-	-	-	-
27	-	-	-	-	-
28	-	-	-	-	-
29	-	-	-	-	-
30	-	-	-	-	-
Total		\$ 11,904,791,114	\$ 6,229,111,114	\$ 5,675,680,000	

Note: Totals may be slightly off due to rounding

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: December 12, 2013
TO: Members of the Board of Retirement
FROM: Steve Delaney, Chief Executive Officer
SUBJECT: OCERS FUNDING POLICY – PAYROLL BASIS FOR UAAL PAYMENTS

Recommendation:

Take appropriate action.

Background:

OCERS applies the Board's Actuarial Funding Policy assumptions to a level percent of payroll when amortizing the Unfunded Actuarial Accrued Liability (UAAL).

One assumption is that employer payroll will rise by 3.75% each year. Thus, at the start of a fiscal year, a given plan sponsor's base payroll will be assumed to have grown by 3.75% by the end of the year. The portion of the plan sponsor's monthly contribution for payment of the UAAL will have been set at the start of that fiscal year based on that growth assumption.

What if a plan sponsor's payroll does not grow as anticipated? At the end of the fiscal year less employer contributions would have been collected than were assumed and anticipated. That shortfall is rolled into any existing UAAL at the end of the fiscal year and becomes a component of the plan sponsors UAAL costs in the future.

During the November 18 OCERS Board consideration of its Actuarial Funding Policy, Mr. Angelo of The Segal Company briefly touched on a possible funding policy, a process or mechanism that could be employed to ensure that shortfall does not lead to an increase in the UAAL. On page 11 of his presentation (the entire presentation is attached here), he noted that there were options that could serve as the basis for a funding policy that charges the employer "the greater of:

- UAAL contribution rate on actual payroll for the fiscal year
- UAAL payment dollar amount as determined in valuation"

This is the method used by City of San Jose and Mendocino CERA.

A copy of the Actuarial Funding Policy used by Mendocino CERA is attached. Note specifically the last bullet on page 2 and the first bullet on page 3.

On Monday, December 16, Mr. Angelo has been requested by Mr. Lindholm, with concurrence by Board Chair Flanigan, to continue that discussion with the OCERS Board.

In considering whether or not this policy is something OCERS is interested in adopting it may be helpful to quantify a recent example of the difference between the projected salary used by Segal and what plan sponsors project their salaries to be. The chart below includes the projected salary for FY 2014-2015 as submitted by plan sponsors for the purposes of prepaying contributions. The chart also includes the projected salary by plan sponsor that was used by Segal in the December 31, 2012 valuation when calculating the rates that are applicable for FY2014-2015. The dollar and percentage difference between the two projected amounts are shown in the last two columns.

Plan Sponsor	FY 2014-15	CY 2013	Variance	% Variance
	Projected Salary by Plan Sponsor	Projected Salary by Segal		
County of Orange	\$ 1,125,826,552	\$ 1,171,654,000	\$ (45,827,448)	-4.07%
Cemetery	\$ 1,241,532	\$ 1,232,000	\$ 9,532	0.77%
OC Public Law Library	\$ 1,227,892	\$ 1,226,000	\$ 1,892	0.15%
OCFA General	\$ 21,186,527	\$ 21,832,000	\$ (645,473)	-3.05%
OCFA Safety	\$ 110,862,819	\$ 111,826,000	\$ (963,181)	-0.87%
Transportation Corridor Agencies	\$ 6,156,150	\$ 6,063,000	\$ 93,150	1.51%
City of San Juan Capistrano	\$ 7,081,382	\$ 6,888,000	\$ 193,382	2.73%
Orange County Sanitation District	\$ 55,885,275	\$ 63,499,000	\$ (7,613,725)	-13.62%
OCTA	\$ 104,600,000	\$ 100,681,000	\$ 3,919,000	3.75%
Child & Family Services	\$ 1,123,000	\$ 1,461,000	\$ (338,000)	-30.10%
LAFCO	\$ 350,000	\$ 269,000	\$ 81,000	23.14%
OCIHSS	\$ 794,218	\$ 693,000	\$ 101,218	12.74%
			\$ (50,988,653)	

Should the Board decide to pursue a policy whereby the plan sponsor would be required to pay the greater of either the UAAL contribution rate applied to their actual payroll or the UAAL payment dollar amount as determined in the valuation (which would be the UAAL contribution rate applied to the actuary's projected salary) the process to administer that policy could include the following:

Plan Sponsors that prepay employer contributions:

- When preparing the prepayment calculation split the expected contribution into two parts:
 - Calculate the Normal Cost contributions using the plan sponsor's projected salary multiplied by the Normal Cost contribution rate. Then calculate the prepayment amount for Normal Cost contributions using the discounted cash flow formula.
 - Calculate the UAAL payment contributions using the actuary's projected salary multiplied by the UAAL contribution rate. Then calculate the

prepayment amount for UAAL contributions using the discounted cash flow formula.

- On a bi-weekly basis plan sponsors will submit their payroll information and employee contributions as they do today. OCERS staff will monitor the actual payroll amounts and compare them to both the plan sponsor projected payroll and the actuary's projected payroll. Should actual payroll be consistently higher than either of the projections, OCERS will require plan sponsors to make additional payments with each pay period for either or both the Normal Cost portion and/or the UAAL portion of their employer contribution. This is necessary to ensure that the discount is utilized evenly throughout the year as assumed in the calculation of the prepayment amount. It also prevents a large true up payment that could include additional interest charges at the end of the fiscal year.

Plan Sponsors that pay employer contributions with each pay period:

- When calculating the employer's contribution for each pay period, the plan sponsor would need to split the calculation into two parts:
 - Calculate the Normal Cost contributions using actual pensionable payroll amounts multiplied by the applicable Normal Cost rate for each employee (based on plan).
 - Calculate the UAAL payment contributions as the greater of:
 - § The sum of all UAAL contributions calculated by using the applicable UAAL contribution rate for each employee (based on rate group) multiplied by actual pensionable payroll amounts for each employee, or
 - § 1/26 (assuming bi-weekly pay periods) of the actuary's projected salary by rate group multiplied by the applicable UAAL contribution rate.

While the Board considers this type of policy, Board members should be aware that currently, plan sponsors do not currently prepare their employer contributions in two separate calculations (Normal Cost and UAAL payments). Also, OCERS has not evaluated the impact on reverse pick up arrangements, whereby employees have agreed to pay a portion of the employer's UAAL contribution. A policy change, such as the one being discussed here, would most likely require modifications to employer's payroll systems and, although OCERS has included a method of recording contributions in the new pension administration system split between Normal Costs and UAAL, the current design of the transmittal process and the calculation of "expected contribution" would need to be revisited to ensure the policy will be automated in the new system.

Submitted:



Steve Delaney
Chief Executive Officer

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

MEMORANDUM

DATE: December 2, 2013
TO: Members, Board of Retirement
FROM: Brenda Shott, Assistant CEO Finance and Internal Operations
SUBJECT: **OCERS Direct Employees Salary Ranges and 2014 Merit Pool**

Recommendation:

Take appropriate action.

Background:

OCERS contracted with the Hay Group, a human resources consulting firm, in August 2012 to conduct a total compensation study of all of the OCERS direct employees. The Board of Retirement received and discussed the Hay Group's study along with a proposed Compensation Philosophy at its meeting on May 20, 2013. Since that meeting, the Board has had several additional discussions regarding OCERS's Compensation Philosophy and salary ranges which resulted in more detailed analysis being performed by staff and engaging plan sponsors in a survey and open communications. These additional efforts produced valuable information and feedback that staff and the Board incorporated into the final Compensation Philosophy approved by the Board on October 21, 2013.

OCERS's Compensation Philosophy states that an annual merit pool, which provides funding for performance based adjustments to individual salaries within the approved salary range for their job title, will be approved by the Board in connection with the annual budget. The Compensation Philosophy also states that salary ranges will be reviewed annually in connection with the budget. Any adjustments to the ranges require approval by the Board.

On October 25, 2013 OCERS held a Budget Workshop. At the Budget Workshop the Board engaged in a detailed discussion about salary range adjustments and the funding of a merit pool for 2014. Staff took direction from the Board during the Budget Workshop and developed the final 2014 Budget which included a merit pool of \$67,000 and options for adjusting salary ranges. The 2014 Budget was adopted by the Board on November 20, 2013 with the exception of the merit pool funding and salary ranges adjustment. Prior to the November 20, 2013 Board meeting, the Board received a letter from Orange County Fire Authority's Fire Chief regarding OCERS Compensation Philosophy, salary ranges and merit pool. As staff had not had the opportunity to respond to the letter prior to the November Board meeting, the Board directed staff to bring the merit pool funding and the adjustment to salary ranges back to the next regularly scheduled Board meeting for further discussion and approval and to respond to OCFA's letter.

Discussion:

Salary Ranges Adjustments

Salary is the largest component and cost driver of an employee's compensation package. Salary ranges are the parameters that the CEO must abide by when setting or moving an employee's actual salary. The movement of a range does not automatically move any individual's salary (unless an individual's current salary falls below the minimum point of the revised range for the job title they hold, this will occur with one individual if either option presented below is approved).

Total compensation of OCERS direct employees was reviewed through a direct compensation and benefit competitiveness study prepared by the Hay Group which was presented to the Board in May 2013. The results of that study was that the value of employer paid total benefits offered by OCERS is at approximately the 50th percentile (with Executive benefits being closer to the 75th percentile) of the comparator market, while direct compensation for several positions have fallen below the 50th percentile. Based on the results of the study, the Ad Hoc Compensation Committee and the Board have focused their attention on direct compensation which is guided by the Board approved salary ranges.

The options below reflect ways to adjust the existing salary ranges for OCERS direct staff in an effort to get the total compensation package in line with compensation offered by comparable governmental entities of similar size and nature. [Note: At the request of the OCERS CEO, his position is not considered in any of the following reviews] A detail schedule showing the resulting ranges is attached as Exhibit 1. The resulting dollar and percentage change to the minimum, midpoint and maximum point of each existing range for both options is provided as Exhibit 2 and Exhibit 3 respectively. The options for the Board's consideration are as follows:

1. Adjust each position's salary range to be the lower of:
 - a. A 9% increase from the existing range, which represents approximately 2/3 of CPI since ranges were last adjusted, or
 - b. The "public sector only" range developed from the Hay Group's direct compensation study.

With exception of 3 positions (Director of Internal Audit, Director of Member Services and Director of Administrative Services) that would be moved by more than 9% by being set at the average range of comparable positions at similarly sized California pension systems as published by CALAPRs in their 2013 Salary Survey. These three positions are currently significantly out of synch with comparable market compensation for the required skills, experience and job duties.

The result of this option is:

- 5 job titles (8 employees) will have ranges that are decreased
- 2 job titles (2 employees) will have ranges that stay the same
- 3 job titles (3 employees) will have ranges that increase by less than 9%
- 4 job titles (7 employees) will have ranges that increase by 9%
- 3 job titles described above as exceptions would have ranges that increase more than 9%.

2. Adjust each position's salary range to be the lower of:
 - a. A 14.5% increase from the existing range, which represents CPI since ranges were last adjusted (2007- August 2012) or
 - b. The "public sector only" range developed from the Hay Group's direct compensation study.

With exception of 3 positions (Director of Internal Audit, Director of Member Services and Director of Administrative Services) that would be moved by more than 14.5% by being set at the average range of comparable positions at similarly sized California pension systems as published by CALAPRs in their 2013 Salary Survey. These three positions are currently significantly out of synch with comparable market compensation for the required skills, experience and job duties.

The result of this option is:

- 5 job titles (8 employees) will have ranges that are decreased
- 2 job titles (2 employees) will have ranges that stay the same
- 5 job titles (5 employees) will have ranges that increase by less than 14.5%
- 2 job titles (5 employees) will have ranges that increase by 14.5%
- 3 job titles described above as exceptions (3 employees) would have ranges that increase more than 9%.

Merit Pool options:

As part of the annual budget the CEO proposed that the Board fund a merit pool to be administered by the CEO in providing performance based salary adjustments to eligible employees (eligible employees for increases funded with the 2014 merit pool are OCERS direct employees that began their employment with OCERS prior to July 1, 2013 and are not at the top of their approved salary range). This merit pool is the only method being proposed to move existing employees within the approved range for their respective position. The salary adjustments to be awarded are proposed to be base building (the award will be added to an individual's current year annual salary). With the concept of a merit pool being new to OCERS through the adoption of the Compensation Philosophy by the Board in October 2013, the CEO is proposing to fully implement the merit pool concept in 2014. However, in recognition of the difficult economic times that have impacted OCERS and its Plan Sponsors for the past six years, the value of the merit pool proposed (\$67,000) was set by taking into consideration actual inflation over the past year. The CEO also proposed that no non-base building or Pay for Performance (P4P) awards be awarded or funded for 2014.

During the Budget Workshop there was a detailed discussion amongst Board members regarding performance based salary adjustments for OCERS direct staff (who are not represented). The options below reflect various ways to fund and administer performance based compensation awards to be paid to employees during 2014.

1. 2% merit pool (totaling \$67,000 which was calculated as 2% of all OCERS direct employees budgeted salaries) to be distributed to eligible employees based on their performance during 2013 as an addition to their existing base salary. CEO will approve all salary adjustments with no individual adjustment to exceed 4%. This option is what the CEO proposed in connection with the 2014 Budget.

2. Same 2% merit pool as described in option 1 above, however distribution of the pool will be as a lump sum payment to individual employees that is NOT added to their base salary (P4P incentive payment awarded as a percentage of salary). CEO will approve all lump sum payments with no individual being eligible to receive more than 4% of their existing base salary. This option was developed based on the discussion the Board had at the Budget Workshop.
3. A mid-point between option one and two above has been suggested by Board Member Prevatt for Board consideration.

Upon ratification of an agreement between the County of Orange and the bargaining group representing OCERS line staff and provided that line staff receive a base-building salary increase in current contract negotiations, 2% of salary (\$67,000) available for either base building merit increases or P4P incentives not to exceed 4% of individual salary at CEO discretion.

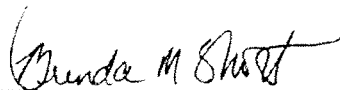
Should the county not successfully negotiate a contract that includes a base-building salary increase for line staff by June 30, 2014, a P4P incentive pool will be implemented with no base building component up to a maximum of 1% of management payroll not to exceed 2% for any individual employee.

The Board specifically excluded the merit pool from the 2014 budget. Therefore, should the Board decide to approve a merit pool or any form of salary adjustment for OCERS direct employees, a budget amendment for such funding will also need to be approved by the Board.

Response to OCFA Letter to the Board of Retirement:

In an effort to fully understand the concerns raised by OCFA and Chief Richter in his letter to OCERS Board of Retirement, dated November 14, 2013, OCERS CEO, Assistant CEO, Finance and Internal Operations and the Director of Administrative Services will be meeting with OCFA's Assistant Chief/Business Services and Treasurer on Thursday, December 5, 2013. Staff was directed by the Board to respond to the letter, such response will be drafted after the meeting with OCFA. The response will be distributed to the Board at that time.

Submitted by:



Brenda Shott
Assistant CEO, Finance & Internal Operations

OCERS Direct Employees Salary Range Adjustment Options November 2013

Exhibit 1

OCERS Direct Employees Position	Current Salary	Existing Range			Option 1 9% maximum CPI range increase (market adjustments) where appropriate)**			Option 2 14.5% maximum CPI range increase (market adjustments where appropriate)**		
		Min	Midpoint	Top	Min	Midpoint	Top	Min	Midpoint	Top
Chief Executive Officer (1)	\$ 248.8	\$ 157.9	\$ 197.4	\$ 236.8	\$ 200.0	\$ 250.0	\$ 300.0	\$ 200.0	\$ 250.0	\$ 300.0
Chief Investment Officer (2)	\$ 275.4	\$ 200.0	\$ 250.0	\$ 300.0	\$ 120.8	\$ 170.9	\$ 221.0	\$ 126.9	\$ 174.0	\$ 221.0
Asst CEO, Finance & Internal Ops	\$ 217.4	\$ 110.9	\$ 166.7	\$ 222.6	\$ 120.8	\$ 170.9	\$ 221.0	\$ 126.9	\$ 174.0	\$ 221.0
Asst CEO, External Operations		\$ 110.9	\$ 166.7	\$ 222.6						
General Counsel		\$ 110.9	\$ 166.7	\$ 222.6						
Director of Investment Operations	\$ 209.2	\$ 110.9	\$ 166.7	\$ 222.6	\$ 120.8	\$ 153.5	\$ 186.2	\$ 126.9	\$ 156.5	\$ 186.2
Director of Finance	\$ 137.0	\$ 93.7	\$ 117.1	\$ 140.5	\$ 100.3	\$ 125.3	\$ 150.4	\$ 107.3	\$ 128.8	\$ 150.4
Director of Internal Audit**	\$ 134.0	\$ 82.9	\$ 103.7	\$ 124.4	\$ 100.6	\$ 125.7	\$ 150.9	\$ 100.6	\$ 125.7	\$ 150.9
Director of IT	\$ 136.4	\$ 93.7	\$ 117.1	\$ 140.5	\$ 98.5	\$ 123.1	\$ 147.8	\$ 98.5	\$ 123.1	\$ 147.8
Director of Member Services *** (3)	\$ 134.0	\$ 79.6	\$ 99.5	\$ 119.4	\$ 113.2	\$ 132.6	\$ 152.0	\$ 113.2	\$ 132.6	\$ 152.0
Director of Administrative Services *** (3)	\$ 100.0	\$ 81.4	\$ 101.7	\$ 122.0	\$ 109.7	\$ 126.7	\$ 143.7	\$ 109.7	\$ 126.7	\$ 143.7
Attorney	\$ 148.1	\$ 107.0	\$ 133.8	\$ 160.6	\$ 107.0	\$ 133.2	\$ 159.4	\$ 107.0	\$ 133.2	\$ 159.4
Attorney	\$ 145.2	\$ 107.0	\$ 133.8	\$ 160.6	\$ 107.0	\$ 133.2	\$ 159.4	\$ 107.0	\$ 133.2	\$ 159.4
Attorney	\$ 142.1	\$ 107.0	\$ 133.8	\$ 160.6	\$ 107.0	\$ 133.2	\$ 159.4	\$ 107.0	\$ 133.2	\$ 159.4
Finance Manager (3)	\$ 97.2	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 80.5	\$ 106.6	\$ 57.3	\$ 84.6	\$ 111.9
Finance Manager (3)	\$ 79.6	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 80.5	\$ 106.6	\$ 57.3	\$ 84.6	\$ 111.9
Finance Manager (3)	\$ 80.0	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 80.5	\$ 106.6	\$ 57.3	\$ 84.6	\$ 111.9
Member Services Manager	\$ 91.2	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 80.5	\$ 106.6	\$ 57.3	\$ 84.6	\$ 111.9
Member Services Manager	\$ 98.8	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 80.5	\$ 106.6	\$ 57.3	\$ 84.6	\$ 111.9
Internal Auditor	\$ 116.2	\$ 82.9	\$ 103.7	\$ 124.4	\$ 67.4	\$ 84.2	\$ 101.0	\$ 67.4	\$ 84.2	\$ 101.0
Communications Manager (3)	\$ 93.3	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 78.5	\$ 102.6	\$ 57.3	\$ 79.9	\$ 102.6
Investment Officer (previously Investment Analyst) (2)	\$ 99.4	\$ 76.3	\$ 101.8	\$ 127.2	\$ 76.3	\$ 101.8	\$ 127.2	\$ 76.3	\$ 101.8	\$ 127.2
Investment Analyst	\$ 85.3	\$ 50.0	\$ 73.9	\$ 97.8	\$ 54.5	\$ 75.0	\$ 95.6	\$ 57.3	\$ 76.4	\$ 95.6
IT Manager	\$ 110.5	\$ 53.0	\$ 84.3	\$ 115.6	\$ 57.8	\$ 91.9	\$ 126.1	\$ 60.7	\$ 94.0	\$ 127.2

* Adjusted existing range by 9%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study).

** Adjusted existing range by 14.5%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study).

*** OCERS existing range for this position is out of sync with market data (Hay Group and CALAPRS). Therefore proposed range was set using the 2013 CALAPRS average range calculated by taking the AVERAGE minimum and maximum points for comparable positions at similarly sized systems included in the CALAPRS 2013 Salary Survey

(1) The CEO salary is set by the Board of Retirement. No adjustment to the existing range is being requested as part of this process

(2) The CEO range (approved by the Board in 2010) and the Investment Officer range (approved through a 2012 reclassification study) are not recommended for any adjustment

(3) Title listed above reflects recommended title changes as follows:

- Member Services Director change to Director of Member Services
- Director of Admin Services/HR Manager change to Director of Administrative Services
- Financial Reporting Manager change to Finance Manager
- Public Relations Analyst change to Communications Manager

**OCERS Direct Employees Salary Range Adjustment Options
\$ Change from Existing Ranges
November 2013**

OCERS Direct Employees Position	Current Salary	Existing Range			Option 1 9% maximum CPI range increase (market adjustments where appropriate)*			Option 2 14.5% maximum CPI range increase (market adjustments where appropriate)**		
		Min	Midpoint	Top	Min	Midpoint	Top	Min	Midpoint	Top
Chief Executive Officer (1)	\$ 248.8	\$ 157.9	\$ 197.4	\$ 236.8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Chief Investment Officer (2)	\$ 275.4	\$ 200.0	\$ 250.0	\$ 300.0	\$ 10.0	\$ 4.2	\$ (1.6)	\$ 16.1	\$ 7.3	\$ (1.6)
Asst CEO, Finance & Internal Ops	\$ 217.4	\$ 110.9	\$ 166.7	\$ 222.6	\$ 10.0	\$ 4.2	\$ (1.6)	\$ 16.1	\$ 7.3	\$ (1.6)
Asst CEO, External Operations		\$ 110.9	\$ 166.7	\$ 222.6	\$ 10.0	\$ 15.0	\$ 20.0	\$ 16.1	\$ 22.0	\$ 27.8
General Counsel		\$ 110.9	\$ 166.7	\$ 222.6	\$ 6.6	\$ 8.2	\$ 9.8	\$ 13.6	\$ 11.7	\$ 9.8
Director of Investment Operations	\$ 209.2	\$ 110.9	\$ 166.7	\$ 222.6	\$ 17.6	\$ 22.0	\$ 26.4	\$ 17.6	\$ 22.0	\$ 26.4
Director of Finance	\$ 137.0	\$ 93.7	\$ 117.1	\$ 140.5	\$ 4.8	\$ 6.0	\$ 7.2	\$ 4.8	\$ 6.0	\$ 7.2
Director of Internal Audit***	\$ 134.0	\$ 82.9	\$ 103.7	\$ 124.4	\$ 33.7	\$ 33.2	\$ 32.7	\$ 33.7	\$ 33.2	\$ 32.7
Director of Member Services*** (3)	\$ 136.4	\$ 93.7	\$ 117.1	\$ 140.5	\$ 28.3	\$ 25.0	\$ 21.6	\$ 28.3	\$ 25.0	\$ 21.6
Director of Administrative Services*** (3)	\$ 134.0	\$ 79.6	\$ 99.5	\$ 119.4	\$ (0.0)	\$ (0.6)	\$ (1.1)	\$ (0.0)	\$ (0.6)	\$ (1.1)
Attorney	\$ 100.0	\$ 81.4	\$ 101.7	\$ 122.0	\$ (0.0)	\$ (0.6)	\$ (1.1)	\$ (0.0)	\$ (0.6)	\$ (1.1)
Attorney	\$ 148.1	\$ 107.0	\$ 133.8	\$ 160.6	\$ (0.0)	\$ (0.6)	\$ (1.1)	\$ (0.0)	\$ (0.6)	\$ (1.1)
Attorney	\$ 145.2	\$ 107.0	\$ 133.8	\$ 160.6	\$ (0.0)	\$ (0.6)	\$ (1.1)	\$ (0.0)	\$ (0.6)	\$ (1.1)
Finance Manager (3)	\$ 142.1	\$ 107.0	\$ 133.8	\$ 160.6	\$ (0.0)	\$ (0.6)	\$ (1.1)	\$ (0.0)	\$ (0.6)	\$ (1.1)
Finance Manager (3)	\$ 97.2	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 6.6	\$ 8.8	\$ 7.3	\$ 10.7	\$ 14.2
Finance Manager (3)	\$ 79.6	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 6.6	\$ 8.8	\$ 7.3	\$ 10.7	\$ 14.2
Member Services Manager	\$ 80.0	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 6.6	\$ 8.8	\$ 7.3	\$ 10.7	\$ 14.2
Member Services Manager	\$ 91.2	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 6.6	\$ 8.8	\$ 7.3	\$ 10.7	\$ 14.2
Internal Auditor	\$ 98.8	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 6.6	\$ 8.8	\$ 7.3	\$ 10.7	\$ 14.2
Communications Manager (3)	\$ 116.2	\$ 82.9	\$ 103.7	\$ 124.4	\$ (15.6)	\$ (19.5)	\$ (23.4)	\$ (15.6)	\$ (19.5)	\$ (23.4)
Investment Officer (previously Investment Analyst) (2)	\$ 93.3	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 4.7	\$ 4.8	\$ 7.3	\$ 6.0	\$ 4.8
Investment Analyst	\$ 99.4	\$ 76.3	\$ 101.8	\$ 127.2	\$ -	\$ (0.0)	\$ -	\$ -	\$ -	\$ -
IT Manager	\$ 85.3	\$ 50.0	\$ 73.9	\$ 97.8	\$ 4.5	\$ 1.1	\$ (2.2)	\$ 7.3	\$ 2.5	\$ (2.2)
	\$ 110.5	\$ 53.0	\$ 84.3	\$ 115.6	\$ 4.8	\$ 7.6	\$ 10.4	\$ 7.7	\$ 9.6	\$ 11.5

* Adjusted existing range by 9%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study)
 ** Adjusted existing range by 14.5%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study)

*** OCERS existing range for this position is out of sync with market data (Hay Group and CALAPRS). Therefore proposed range was set using the 2013 CALAPRS average range calculated by taking the AVERAGE minimum and maximum points for comparable positions at similarly sized systems included in the CALAPRS 2013 Salary Survey

- (1) The CEO salary is set by the Board of Retirement. No adjustment to the existing range is being requested as part of this process
- (2) The CIO range (approved by the Board in 2010) and the Investment Officer range (approved through a 2012 reclassification study) are not recommended for any adjustment
- (3) Title listed above reflects recommended title changes as follows:
 Member Services Director change to Director of Member Services
 Director of Admin Services/HR Manager change to Director of Administrative Services
 Financial Reporting Manager change to Finance Manager
 Public Relations Analyst change to Communications Manager

**OCERS Direct Employees Salary Range Adjustment Options
% Change from Existing
November 2013**

Exhibit 3

OCERS Direct Employees Position	Current Salary	Existing Range			Option 1 9% maximum CPI range increase (market adjustments where appropriate)*			Option 2 14.5% maximum CPI range increase (market adjustments where appropriate)**		
		Min	Midpoint	Top	Min	Midpoint	Top	Min	Midpoint	Top
Chief Executive Officer (1)	\$ 248.8	\$ 157.9	\$ 197.4	\$ 236.8	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Chief Investment Officer (2)	\$ 275.4	\$ 200.0	\$ 250.0	\$ 300.0	9.0%	2.5%	-0.7%	14.5%	4.4%	-0.7%
Asst CEO, Finance & Internal Ops	\$ 217.4	\$ 110.9	\$ 166.7	\$ 222.6	9.0%	2.5%	-0.7%	14.5%	4.4%	-0.7%
Asst CEO, External Operations		\$ 110.9	\$ 166.7	\$ 222.6	9.0%	9.0%	9.0%	14.5%	13.2%	12.5%
General Counsel		\$ 110.9	\$ 166.7	\$ 222.6	9.0%	-7.9%	-16.4%	14.5%	-6.1%	-16.4%
Director of Investment Operations	\$ 209.2	\$ 93.7	\$ 117.1	\$ 140.5	7.0%	7.0%	7.0%	14.5%	10.0%	7.0%
Director of Finance	\$ 137.0	\$ 82.9	\$ 103.7	\$ 124.4	21.3%	21.3%	21.3%	21.3%	21.3%	21.3%
Director of Internal Audit***	\$ 134.0	\$ 93.7	\$ 117.1	\$ 140.5	5.2%	5.2%	5.2%	5.2%	5.2%	5.2%
Director of IT	\$ 136.4	\$ 93.7	\$ 117.1	\$ 140.5	42.3%	33.3%	27.4%	42.3%	33.3%	27.4%
Director of Member Services*** (3)	\$ 134.0	\$ 79.6	\$ 99.5	\$ 119.4	34.8%	24.6%	17.7%	34.8%	24.6%	17.7%
Director of Administrative Services*** (3)	\$ 100.0	\$ 81.4	\$ 101.7	\$ 122.0	0.0%	-0.4%	-0.7%	0.0%	-0.4%	-0.7%
Attorney	\$ 148.1	\$ 107.0	\$ 133.8	\$ 160.6	0.0%	-0.4%	-0.7%	0.0%	-0.4%	-0.7%
Attorney	\$ 145.2	\$ 107.0	\$ 133.8	\$ 160.6	0.0%	-0.4%	-0.7%	0.0%	-0.4%	-0.7%
Finance Manager (3)	\$ 142.1	\$ 107.0	\$ 133.8	\$ 160.6	0.0%	-0.4%	-0.7%	0.0%	-0.4%	-0.7%
Finance Manager (3)	\$ 97.2	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	9.0%	9.0%	14.5%	14.5%	14.5%
Finance Manager (3)	\$ 79.6	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	9.0%	9.0%	14.5%	14.5%	14.5%
Member Services Manager	\$ 80.0	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	9.0%	9.0%	14.5%	14.5%	14.5%
Member Services Manager	\$ 91.2	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	9.0%	9.0%	14.5%	14.5%	14.5%
Member Services Manager	\$ 98.8	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	9.0%	9.0%	14.5%	14.5%	14.5%
Internal Auditor	\$ 116.2	\$ 82.9	\$ 103.7	\$ 124.4	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%	-18.8%
Communications Manager (3)	\$ 93.3	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	6.3%	4.9%	14.5%	8.2%	4.9%
Investment Officer (previously Investment Analyst) (2)	\$ 99.4	\$ 76.3	\$ 101.8	\$ 127.2	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Investment Analyst	\$ 85.3	\$ 50.0	\$ 73.9	\$ 97.8	9.0%	1.5%	-2.3%	14.5%	3.4%	-2.3%
IT Manager	\$ 110.5	\$ 53.0	\$ 84.3	\$ 115.6	9.0%	9.0%	9.0%	14.5%	11.4%	10.0%

* Adjusted existing range by 9%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study).

** Adjusted existing range by 14.5%, but limit top of range to be no higher than the market comparable ranges for public sector entities (source: Hay Group Study).

*** OCERS existing range for this position is out of sync with market data (Hay Group and CALAPRS). Therefore proposed range was set using the 2013 CALAPRS average range calculated by taking the AVERAGE minimum and maximum points for comparable positions at similarly sized systems included in the CALAPRS 2013 Salary Survey

(1) The CEO salary is set by the Board of Retirement. No adjustment to the existing range is being requested as part of this process

(2) The CIO range (approved by the Board in 2010) and the Investment Officer range (approved through a 2012 reclassification study) are not recommended for any adjustment.

(3) Title listed above reflects recommended title changes as follows:

- Member Services Director change to Director of Member Services
- Director of Admin Services/HR Manager change to Director of Administrative Services
- Financial Reporting Manager change to Finance Manager
- Public Relations Analyst change to Communications Manager

*Serving the Active and
Retired Members of:*

CITY OF SAN JUAN
CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY
CEMETERY DISTRICT

ORANGE COUNTY
CHILDREN & FAMILIES
COMMISSION

ORANGE COUNTY
DEPARTMENT OF
EDUCATION (CLOSED TO
NEW MEMBERS)

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY IN-HOME
SUPPORTIVE SERVICES
PUBLIC AUTHORITY

ORANGE COUNTY LOCAL
AGENCY FORMATION
COMMISSION

ORANGE COUNTY PUBLIC
LAW LIBRARY

ORANGE COUNTY
SANITATION DISTRICT

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

SUPERIOR COURT OF
CALIFORNIA, COUNTY
OF ORANGE

TRANSPORTATION
CORRIDOR AGENCIES
UCI MEDICAL ENTER AND

December 13, 2013

Keith Richter, Fire Chief
Orange County Fire Authority
P.O Box 57115
Irvine, CA 92619-7115

Dear Chief Richter,

Thank you for taking the time to share your thoughts on OCERS Compensation Philosophy, salary ranges and annual merit increases for our direct management employees. I appreciate your comments.

In response to your letter received by our Board on November 15, 2013, I would like to shed light on the underlying goal of developing OCERS compensation philosophy. Like most governmental agencies and all of our plan sponsors, OCERS' compensation for managers and executives is set based on established ranges. The current ranges for our direct employees were approved by the Board of Retirement in August 2007. Movement of salaries within the established ranges occurs annually in connection with performance evaluations. However, unlike OCFA's well documented method of providing annual merit salary increases as outlined in your Annual Merit Review Program Guidelines, OCERS previously did not have a documented approach on how to move managers' salary within their approved ranges. In fact, despite our ranges not being changed in over six years, only three out of twenty-three individuals are at the top of their current ranges, indicating that salaries have been prudently managed during that time. In an effort to have a transparent, documented guideline that is consistent with general governmental practices, OCERS Board of Retirement recently adopted a simple Compensation Philosophy at their October meeting. (See attached) Our primary goal with this document was to adopt and communicate a framework for managing compensation over the long term for OCERS direct employees who are unrepresented employees working without contract or a Memorandum of Understanding that would typically document salary arrangements for government employees.

In May 2013, Staff solicited feedback from all of our plan sponsors prior to implementation of our Philosophy via an online survey. We received a response from OCFA. We found your response to be extremely helpful and we were able to review it with many other responses via our Ad Hoc Compensation Committee.

The feedback we received also included a letter from the County of Orange Chief Executive Officer, Mike Giancola. We understand, through conversations with your staff, that Mr. Giancola's letter caused you to have concerns and triggered the writing of your letter to the OCERS Board of Retirement. OCERS staff and Board took all of the feedback we received very seriously and invested the time necessary to understand the specifics of the concerns raised. We discovered that many of the concerns were a misunderstanding of the intent of our Compensation Philosophy. Our Board addressed those concerns by adopting an amended version of the originally proposed philosophy that removed or changed the provisions that were the source of objection. However, we did not respond in writing point by point to each plan sponsor's concern. Specifically, our response to Mr. Giancola and now with you is written based on direction from our Ad Hoc Compensation Committee to address the spirit of the concerns without getting into the minutia.

With that concept in mind, we would like to assure to you that the philosophy does not allow for automatic increases to the ranges or salaries. The key provisions of the OCERS's Compensation Philosophy are:

- No automatic adjustments to the ranges or actual salaries
- Salary adjustments to OCERS direct staff are currently and will continue to be based on performance.
- Merit pool amounts, which will only allow employees to move within the approved range, will be reviewed annually, such reviews will consider current economic and financial conditions that impact OCERS
- Salary ranges will be reviewed by staff regularly to ensure they stay competitive with the market and any necessary adjustments to salary ranges will require Board of Retirement approval.

The regular review of our ranges is not intended nor will they result in an upward only movement of salary ranges. In fact, the current proposed range adjustment based on our market study of seventeen positions (held by a total of twenty-three individuals), results in five of the position ranges (that are held by eight individuals) having ranges that will be adjusted downward. Two positions (that are held by two individuals) will have no movement at all. Upward movement of the remaining ranges will be held to a minimum necessary to have ranges that are consistent with the average of comparable positions with like sized public pension systems. These adjustments are being proposed to keep our salary ranges competitive in the market and with our peers, which is a prudent move to make in any economic climate.

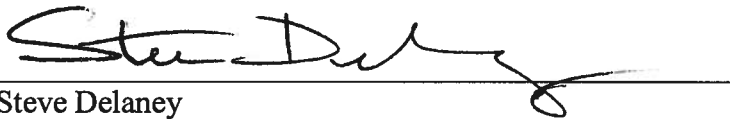
In regards to your concerns about merit increases, at our December 16, 2013 Board meeting, we are requesting to fund our 2014 merit pool in the amount of \$67,000.

Keith Richter, Fire Chief
Page 3

The merit pool will be used to either move our managers within their ranges (consistent with current practices of many of our plan sponsors, including OCFA) or to award one-time non-base building performance awards in lieu of moving base salary. This request will allow OCERS to provide very modest (no more than 4%) performance award to those managers whose performance warrants such an award. Our Board must approve the funding of the merit pool before performance awards will be made.

Once again, thank you for providing the Retirement Board with your comments and taking the time to review the attached documents regarding the OCERS direct employee's compensation plan. We aim to provide clear, transparent and open communication with all of our plan sponsors and employees regarding items that effect OCERS operating budget.

Sincerely,

A handwritten signature in black ink, appearing to read "Steve Delaney", written over a horizontal line.

Steve Delaney
Chief Executive Officer
Orange County Employees Retirement System

Attached:

A. OCERS Compensation Philosophy as adopted by the Board October 21, 2013.

Cc: OCERS Board of Retirement

PURPOSE AND BACKGROUND

The philosophy behind the Orange County Employees Retirement System's ("OCERS") compensation program is to create a pay structure with the goal of attracting, developing and retaining strong leaders who support OCERS' mission and values. We believe our compensation program is a management tool that when aligned with an effective communication plan is designed to support, reinforce, and align our values, business strategy, operation & financial needs through professional and proficient staff that provide secure retirement benefits to our members with the highest standards of excellence.

The underlying philosophy governing OCERS' compensation program is designed to accomplish the following:

- Provide pay levels that are externally competitive among peers within our industry and with published market data for similar sized governmental organizations.
- Recognize and reward individual performance, initiatives, growth in job proficiency and achievement of stated goals.
- Provide management the flexibility to make compensation decisions within budgetary guidelines

In alignment with our organization's culture, we will strive to communicate openly about the goals of the agency and the design of the compensation program. The compensation process is intended to be fair and uncomplicated so that all employees and managers understand the goals and the outcome of the process.

COMPENSATION STRATEGY

Total Compensation of OCERS employees includes both cash compensation and benefits. OCERS' Board of Retirement is responsible for approving salary ranges for each authorized position. The CEO is responsible for managing salaries within the approved salary ranges. The CEO will use the following process:

- In November of each year, or other time of year as determined by the Chief Executive Officer, each Executive, Management and/or Professional employee as of June 1 of that year shall receive a written performance evaluation and be eligible for an annual merit increase with a performance rating of meets performance standards or better.
- Salary increases within a range shall not be automatic. The Chief of each division will provide performance feedback and salary adjustment recommendations for the CEO's consideration. The CEO will make the final determination of salary awards based on the annual performance pool and individual award limits approved by the Board of Retirement in connection with the budget.
- Salary ranges will be reviewed annually with an intended purpose of keeping total compensation competitive. The CEO may ask the Board of Retirement to consider adjustments to the salary ranges during the annual budget approval process.

The Board of Retirement has entered into a Memorandum of Agreement with the County of Orange for providing and administrating employee benefits to OCERS' direct employees. The agreement with the County calls for OCERS' employees to receive the same benefits offered to County administrative and executive management employees.

Version Control:

Version	Date	Changes from previous version
1.0	05/09/2013	Initial Draft –to Board
2.0	07/03/2013	Revised Draft – to Board
3.0	10/08/13	Revised Draft-to Board

Review:

Reviewed by	Signature	Date

Approval:

Approved by	Signature	Date

DISCUSSION CALENDAR - AGENDA ITEM NO. 3
BUDGET AND FINANCE COMMITTEE MEETING
January 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Monthly Investment Reports**

Summary:

This agenda item is submitted to the Committee in compliance with the investment policy of the Orange County Fire Authority and with Government Code Section 53646.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee receive and file the reports.

Background:

Attached is the final monthly investment report for the month ended November 30, 2013. A preliminary investment report as of December 13, 2013, is also provided as the most complete report that was available at the time this agenda item was prepared.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contact for Further Information:

Patricia Jakubiak, Treasurer

Triciajakubiak@ocfa.org

(714) 573-6301

Attachment:

Final Investment Report – November 2013 / Preliminary Report – December 2013

Orange County Fire Authority Monthly Investment Report



Final Report – November 2013

Preliminary Report – December 2013



Monthly Investment Report Table of Contents

<i>Final Investment Report – November 30, 2013</i>	<i>1</i>
<i>Executive Summary.....</i>	<i>2</i>
<i>Benchmark Comparison.....</i>	<i>3</i>
<i>Portfolio Size, Yield, & Duration.....</i>	<i>3</i>
<i>Portfolio Summary.....</i>	<i>4</i>
<i>Portfolio Details.....</i>	<i>5</i>
<i>Aging Report</i>	<i>8</i>
<i>Notes to Portfolio Management Report</i>	<i>9</i>
<i>Local Agency Investment Fund.....</i>	<i>10</i>
<i>Preliminary Investment Report – December 13, 2013.....</i>	<i>12</i>
<i>Portfolio Summary.....</i>	<i>13</i>
<i>Portfolio Details.....</i>	<i>14</i>
<i>Aging Report</i>	<i>17</i>
<i>Notes to Portfolio Management Report</i>	<i>18</i>



Orange County Fire Authority

Final Investment Report

November 30, 2013



EXECUTIVE SUMMARY

Portfolio Activity & Earnings

During the month of November 2013, the size of the portfolio decreased slightly further to \$103.4 million from \$105.9 million. Significant receipts for the month included the first apportionment of secured property taxes for \$13.8 million, a cash contract payment for \$2.9 million, and various charges for current services and intergovernmental agency payments totaling \$1.7 million. Significant disbursements for the month included primarily biweekly payrolls and a payment of \$2.1 million for four fire engines. The portfolio's balance is expected to increase significantly in the following month as the next major apportionments of property taxes are scheduled for December.

In November, the portfolio's yield to maturity (365-day equivalent) stayed unchanged at 0.38%. The effective rate of return, on the other hand, increased by 4 basis points to 0.39% for the month, and edged up by 1 basis point to 0.35% for the fiscal year to date. The average maturity of the portfolio shortened by 10 days to 298 days to maturity.

Economic News

The U.S. economic activity appeared to improve slightly in November 2013, although the overall economic pace remained moderate and somewhat mixed. On the upside, employment conditions continued improving. There were a total of 203,000 new jobs added in November while a smaller increase had been expected for the November payroll. Unemployment conditions also improved in November, declining to 7.0% from 7.3% previously, although still at an elevated level. Manufacturing activity continued to increase slightly while the non-manufacturing sector slowed down a bit. Retail sales came in slightly better than expected while consumer confidence was mixed; the University of Michigan Consumer Sentiment Index showed a small increase while the Conference Board Consumer Confidence measure continued to drop, albeit slightly. Industrial production increased better than expected, and housing activity also continued to show improvement. Inflation remained tame. On December 18, 2013, on the second day of the scheduled meeting, the Federal Open Market Committee met and voted to keep the federal funds rate unchanged at a target range of 0 – 0.25%. The Committee also decided to begin “tapering”, reducing its asset purchases from \$85 billion to \$75 billion per month starting in January 2014.



BENCHMARK COMPARISON AS OF NOVEMBER 30, 2013

<i>3 Month T-Bill:</i> 0.07%	<i>1 Year T-Bill:</i> 0.12%
<i>6 Month T-Bill:</i> 0.10%	<i>LAIF:</i> 0.26%
<i>OCFA Portfolio:</i> 0.39%	

PORTFOLIO SIZE, YIELD, & DURATION

	<u><i>Current Month</i></u>	<u><i>Prior Month</i></u>	<u><i>Prior Year</i></u>
<i>Book Value-</i>	\$103,368,721	\$105,949,618	\$102,387,088
<i>Yield to Maturity (365 day)</i>	0.38%	0.38%	0.27%
<i>Effective Rate of Return</i>	0.39%	0.35%	0.29%
<i>Days to Maturity</i>	298	308	171



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
November 30, 2013

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

(See Note 1 on page 9)

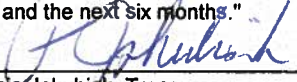
(See Note 2 on page 9)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	6,059,266.08	6,059,266.08	6,059,266.08	5.77	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	4,000,000.00	3,999,280.00	3,999,608.89	3.81	89	44	0.080	0.081
Federal Agency Coupon Securities	45,000,000.00	44,873,400.00	45,004,745.05	42.84	1,292	691	0.586	0.594
Local Agency Investment Funds	50,000,000.00	50,028,366.00	50,000,000.00	47.59	1	1	0.259	0.263
Investments	105,059,266.08	104,960,312.08	105,063,620.02	100.00%	557	298	0.378	0.383

Cash								
Passbook/Checking (not included in yield calculations)	(See Note 4 on page 9)	-1,214,199.51	-1,214,199.51	-1,214,199.51	0	0	0.000	0.000
Total Cash and Investments		103,845,066.57	103,746,112.57	103,849,420.51	557	298	0.378	0.383

Total Earnings	November 30 Month Ending	Fiscal Year To Date
Current Year	33,917.89	182,141.70
Average Daily Balance	107,012,888.65	125,038,370.50
Effective Rate of Return	0.39%	0.35%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2013. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

 12/6/13
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 103,849,420.51
GASB 31 Adjustment to Books (See Note 3 on page 9)	\$ (480,699.41)
Total	\$ 103,368,721.10

Page 4

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
November 30, 2013

(See Note 1 on page 9)

(See Note 2 on page 9)

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF		(See Note 4 on page 9)	6,059,266.08	6,059,266.08	6,059,266.08	0.001	0.001	1	
Subtotal and Average			8,941,995.50		6,059,266.08	6,059,266.08	6,059,266.08	0.001	0.001	1	
Commercial Paper Disc. -Amortizing											
36959JAE3	810	GEN ELEC CAP CRP		10/17/2013	4,000,000.00	3,999,280.00	3,999,608.89	0.080	0.081	44	01/14/2014
Subtotal and Average			3,999,480.00		4,000,000.00	3,999,280.00	3,999,608.89	0.080	0.081	44	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank(Callable anytime)		12/26/2012	9,000,000.00	9,000,090.00	9,000,000.00	0.375	0.375	572	06/26/2015
3133ECM76	809	Federal Farm Credit Bank(Callable anytime)		04/25/2013	9,000,000.00	8,982,900.00	8,994,963.51	0.400	0.424	873	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,988,180.00	6,000,000.00	1.000	0.981	1,347	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 12-9-13)		12/20/2012	9,000,000.00	8,901,990.00	9,011,608.41	1.000	0.883	8	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	12,000,240.00	11,998,173.13	0.470	0.477	827	03/07/2016
Subtotal and Average			45,004,746.48		45,000,000.00	44,873,400.00	45,004,746.05	0.594	0.594	691	
Local Agency Investment Funds											
SYS336	336	Local Agency Investmt Fund			50,000,000.00	50,028,366.00	50,000,000.00	0.263	0.263	1	
Subtotal and Average			49,066,666.67		50,000,000.00	50,028,366.00	50,000,000.00	0.263	0.263	1	
Total and Average			107,012,888.65		105,059,266.08	104,960,312.08	105,063,620.02	0.383	0.383	298	

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
November 30, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2013	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2013	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2013	-1,499,199.51	-1,499,199.51	-1,499,199.51	(See Note 4 on page 9)	0.000	1
SYS361	361	YORK		07/01/2013	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							0
Total Cash and Investments			107,012,888.65		103,845,066.57	103,746,112.57	103,849,420.51		0.383	298

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of December 1, 2013

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

Page 8

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value	
Aging Interval:	0 days	(12/01/2013 - 12/01/2013)	6 Maturities	0 Payments	54,845,066.57	52.81%	54,845,066.57	54,873,432.57
Aging Interval:	1 - 30 days	(12/02/2013 - 12/31/2013)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	31 - 60 days	(01/01/2014 - 01/30/2014)	1 Maturities	0 Payments	4,000,000.00	3.85%	3,999,608.89	3,999,280.00
Aging Interval:	61 - 91 days	(01/31/2014 - 03/02/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	92 - 121 days	(03/03/2014 - 04/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	122 - 152 days	(04/02/2014 - 05/02/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(05/03/2014 - 06/02/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(06/03/2014 - 09/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(09/02/2014 - 12/01/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(12/02/2014 - 11/30/2016)	3 Maturities	0 Payments	30,000,000.00	28.88%	29,993,136.64	29,983,230.00
Aging Interval:	1096 - 1825 days	(12/01/2016 - 11/30/2018)	2 Maturities	0 Payments	15,000,000.00	14.46%	15,011,608.41	14,890,170.00
Aging Interval:	1826 days and after	(12/01/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for			12 Investments	0 Payments		100.00	103,849,420.51	103,746,112.57



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2013 includes an increase of \$13,660 to the LAIF investment and a decrease of \$(494,359) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.



Local Agency Investment Fund (LAIF)

As of November 30, 2013, OCFA has \$50,000,000 invested in LAIF. The fair value of OCFA's LAIF investment is calculated using a participant fair value factor provided by LAIF on a quarterly basis. The fair value factor as of September 30, 2013 is 1.00056732. When applied to OCFA's LAIF investment, the fair value is \$50,028,366 or \$28,366 above cost. Although the fair value of the LAIF investment is higher than cost, OCFA can withdraw the actual amount invested at any time.

LAIF is included in the State Treasurer's Pooled Money Investment Account (PMIA) for investment purposes. The PMIA market valuation at November 30, 2013 is included on the following page.

**State of California
Pooled Money Investment Account
Market Valuation
11/30/2013**

Description	Carrying Cost Plus Accrued Interest Purch.		Fair Value	Accrued Interest
United States Treasury:				
Bills	\$ 13,633,461,252.16		\$ 13,644,445,500.00	NA
Notes	\$ 17,263,872,765.03		\$ 17,287,511,000.00	\$ 17,766,123.50
Federal Agency:				
SBA	\$ 556,638,947.67		\$ 551,766,371.10	\$ 529,216.89
MBS-REMICs	\$ 148,524,918.29		\$ 161,234,833.46	\$ 708,261.48
Debentures	\$ 1,374,392,646.97		\$ 1,371,905,500.00	\$ 5,012,535.84
Debentures FR	\$ -		\$ -	\$ -
Discount Notes	\$ 1,898,266,500.01		\$ 1,899,654,000.00	NA
GNMA	\$ -		\$ -	\$ -
Supranational Debentures	\$ 549,880,391.04		\$ 550,117,000.00	\$ 1,033,682.00
CDs and YCDs FR	\$ -		\$ -	\$ -
Bank Notes	\$ -		\$ -	\$ -
CDs and YCDs	\$ 5,975,024,373.94		\$ 5,972,317,037.11	\$ 3,553,097.21
Commercial Paper	\$ 2,224,522,388.94		\$ 2,224,589,770.84	NA
Corporate:				
Bonds FR	\$ -		\$ -	\$ -
Bonds	\$ -		\$ -	\$ -
Repurchase Agreements	\$ -		\$ -	\$ -
Reverse Repurchase	\$ -		\$ -	\$ -
Time Deposits	\$ 4,479,140,000.00		\$ 4,479,140,000.00	NA
AB 55 & GF Loans	\$ 8,441,826,649.37		\$ 8,441,826,649.37	NA
TOTAL	\$ 56,545,550,833.42		\$ 56,584,507,661.88	\$ 28,602,916.92

Fair Value Including Accrued Interest \$ 56,613,110,578.80

Repurchase Agreements, Time Deposits, AB 55 & General Fund loans, and Reverse Repurchase agreements are carried at portfolio book value (carrying cost).



Orange County Fire Authority
Preliminary Investment Report
December 13, 2013



ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Summary
December 13, 2013

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

(See Note 1 on page 18) (See Note 2 on page 18)

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Maturity	YTM/C 360 Equiv.	YTM/C 365 Equiv.
Money Mkt Mutual Funds/Cash	4,189,301.28	4,189,301.28	4,189,301.28	3.57	1	1	0.001	0.001
Commercial Paper Disc. -Amortizing	4,000,000.00	3,999,440.00	3,999,724.44	3.41	89	31	0.080	0.081
Federal Agency Coupon Securities	45,000,000.00	44,802,240.00	45,004,743.78	38.40	1,292	684	0.586	0.594
Federal Agency Disc. -Amortizing	14,000,000.00	13,999,720.00	13,999,879.44	11.95	40	31	0.010	0.010
Local Agency Investment Funds	50,000,000.00	50,028,366.00	50,000,000.00	42.66	1	1	0.259	0.263
Investments	117,189,301.28	117,019,067.28	117,193,648.94	100.00%	504	268	0.340	0.345
Cash								
Passbook/Checking (not included in yield calculations)	537,572.00	537,572.00	537,572.00		1	1	0.000	0.000
Total Cash and Investments	117,726,873.28	117,556,639.28	117,731,220.94		504	268	0.340	0.345

Total Earnings	December 13 Month Ending	Fiscal Year To Date
Current Year	14,806.51	196,948.21
Average Daily Balance	114,784,005.06	124,235,317.78
Effective Rate of Return	0.36%	0.35%

"I certify that this investment report accurately reflects all pooled investments and is in compliance with the investment policy adopted by the Board of Directors to be effective on January 1, 2013. A copy of this policy is available from the Clerk of the Authority. Sufficient investment liquidity and anticipated revenues are available to meet budgeted expenditure requirements for the next thirty days and the next six months."

[Signature] 12/20/13
 Patricia Jakubiak, Treasurer

Cash and Investments with GASB 31 Adjustment:

Book Value of Cash & Investments before GASB 31 (Above)	\$ 117,731,220.94
GASB 31 Adjustment to Books (See Note 3 on page 18)	\$ (480,699.41)
Total	\$ 117,250,521.53

Page 13

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Investments
December 13, 2013

(See Note 1 on page 18) (See Note 2 on page 18)

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity	Maturity Date
Money Mkt Mutual Funds/Cash											
SYS528	528	High Mark 100% US Treasury MMF			4,189,301.28	4,189,301.28	4,189,301.28	0.001	0.001	1	
Subtotal and Average			6,087,376.11		4,189,301.28	4,189,301.28	4,189,301.28		0.001	1	
Commercial Paper Disc. -Amortizing											
36959JAE3	810	GEN ELEC CAP CRP		10/17/2013	4,000,000.00	3,999,440.00	3,999,724.44	0.080	0.081	31	01/14/2014
Subtotal and Average			3,999,671.11		4,000,000.00	3,999,440.00	3,999,724.44		0.081	31	
Federal Agency Coupon Securities											
3133ECBT0	799	Federal Farm Credit Bank (Callable anytime)		12/28/2012	9,000,000.00	9,000,090.00	9,000,000.00	0.375	0.375	559	06/28/2015
3133ECM76	809	Federal Farm Credit Bank (Callable anytime)		04/25/2013	9,000,000.00	8,975,340.00	8,995,039.55	0.400	0.424	860	04/22/2016
3133804V6	787	Fed Home Loan Bank (Callable anytime)		08/09/2012	6,000,000.00	5,968,920.00	6,000,000.00	1.000	0.981	1,334	08/09/2017
3133813R4	800	Fed Home Loan Bank (Callable 1-9-14)		12/20/2012	9,000,000.00	8,864,370.00	9,011,501.99	1.000	0.883	26	11/09/2017
313382DC4	803	Fed Home Loan Bank (Callable anytime)		03/15/2013	12,000,000.00	11,993,520.00	11,998,202.24	0.470	0.477	814	03/07/2016
Subtotal and Average			45,004,744.37		45,000,000.00	44,802,240.00	45,004,743.78		0.594	684	
Federal Agency Disc. -Amortizing											
313385RU2	811	Fed Home Loan Bank		12/05/2013	14,000,000.00	13,999,720.00	13,999,879.44	0.010	0.010	31	01/14/2014
Subtotal and Average			9,682,213.46		14,000,000.00	13,999,720.00	13,999,879.44		0.010	31	
Local Agency Investment Funds											
SYS336	336	Local Agency Invstmt Fund			50,000,000.00	50,028,366.00	50,000,000.00	0.263	0.263	1	
Subtotal and Average			50,000,000.00		50,000,000.00	50,028,366.00	50,000,000.00		0.263	1	
Total and Average			114,784,005.06		117,189,301.28	117,019,067.28	117,193,648.94		0.345	268	

Page 14

ORANGE COUNTY FIRE AUTHORITY
Portfolio Management
Portfolio Details - Cash
December 13, 2013

CUSIP	Investment #	Issuer	Average Balance	Purchase Date	Par Value	Market Value	Book Value	Stated Rate	YTM/C 365	Days to Maturity
Money Mkt Mutual Funds/Cash										
SYS10104	10104	American Benefit Plan Admin		07/01/2013	15,000.00	15,000.00	15,000.00		0.000	1
SYS10033	10033	Revolving Fund		07/01/2013	20,000.00	20,000.00	20,000.00		0.000	1
SYS4	4	Union Bank of California		07/01/2013	252,572.00	252,572.00	252,572.00		0.000	1
SYS361	361	YORK		07/01/2013	250,000.00	250,000.00	250,000.00		0.000	1
		Average Balance	0.00							1
Total Cash and Investments			114,784,005.06		117,726,873.28	117,556,639.28	117,731,220.94		0.345	268

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ORANGE COUNTY FIRE AUTHORITY
Aging Report
By Maturity Date
As of December 14, 2013

Orange County Fire Authority
 1 Fire Authority Road
 Irvine, CA 92602
 (714)573-6301

				Maturity Par Value	Percent of Portfolio	Current Book Value	Current Market Value	
Aging Interval:	0 days	(12/14/2013 - 12/14/2013)	6 Maturities	0 Payments	54,726,873.28	46.48%	54,726,873.28	54,755,239.28
Aging Interval:	1 - 30 days	(12/15/2013 - 01/13/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	31 - 60 days	(01/14/2014 - 02/12/2014)	2 Maturities	0 Payments	18,000,000.00	15.29%	17,999,603.88	17,999,160.00
Aging Interval:	61 - 91 days	(02/13/2014 - 03/15/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	92 - 121 days	(03/16/2014 - 04/14/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	122 - 152 days	(04/15/2014 - 05/15/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	153 - 183 days	(05/16/2014 - 06/15/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	184 - 274 days	(06/16/2014 - 09/14/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	275 - 365 days	(09/15/2014 - 12/14/2014)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Aging Interval:	366 - 1095 days	(12/15/2014 - 12/13/2016)	3 Maturities	0 Payments	30,000,000.00	25.48%	29,993,241.79	29,968,950.00
Aging Interval:	1096 - 1825 days	(12/14/2016 - 12/13/2018)	2 Maturities	0 Payments	15,000,000.00	12.75%	15,011,501.99	14,833,290.00
Aging Interval:	1826 days and after	(12/14/2018 -)	0 Maturities	0 Payments	0.00	0.00%	0.00	0.00
Total for			13 Investments	0 Payments		100.00	117,731,220.94	117,556,639.28



NOTES TO PORTFOLIO MANAGEMENT REPORT

- Note 1: Market value of the LAIF investment is calculated using a fair value factor provided by LAIF. The Union Bank Trust Department provides market values of the remaining investments.
- Note 2: Book value reflects the cost or amortized cost before the GASB 31 accounting adjustment.
- Note 3: GASB 31 requires governmental entities to report investments at fair value in the financial statements and to reflect the corresponding unrealized gains/ (losses) as a component of investment income. The GASB 31 adjustment is recorded only at fiscal year end. The adjustment for June 30, 2013 includes an increase of \$13,660 to the LAIF investment and a decrease of \$(494,359) to the remaining investments.
- Note 4: The Highmark money market mutual fund functions as the Authority's sweep account. Funds are transferred to and from the sweep account to/from OCFA's checking account in order to maintain a target balance of \$1,000,000 in checking. Since this transfer occurs at the beginning of each banking day, the checking account sometimes reflects a negative balance at the close of the banking day. The negative closing balance is not considered an overdraft since funds are available in the money market mutual fund. The purpose of the sweep arrangement is to provide sufficient liquidity to cover outstanding checks, yet allow that liquidity to be invested while payment of the outstanding checks is pending.

DISCUSSION CALENDAR - AGENDA ITEM NO. 4
BUDGET AND FINANCE COMMITTEE MEETING
January 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Updated Broker/Dealer List**

Summary:

This agenda item is submitted to the Committee to request approval to update the current list of broker/dealers that the Treasurer uses for competitive bidding of investment purchases.

Recommended Action:

Review the proposed agenda item and direct staff to place the item on the agenda for the Executive Committee Meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Executive Committee approve the proposed Broker/Dealer List to include the following three firms:

- FTN Financial
- Raymond James
- UBS Financial Services

Background:

The OCFA's policy for selection and use of broker/dealers follows the best practices issued by the Government Finance Officers' Association, and is prescribed by policy in the OCFA's Annual Investment Policy (see policy excerpt attachment). This Policy is reviewed, renewed, and approved by the Budget and Finance Committee and the Board of Directors annually. Staff is adhering to the Policy approved by the Board.

The Investment Policy encourages competitive bidding on investment transactions from an approved list of broker/dealers. The Policy also requires that the list of broker/dealers be reviewed annually. The Executive Committee approved the last broker/dealer update on January 24, 2013. The list is limited to three firms due to the impracticality of dealing with a large list of broker/dealers when obtaining competitive bids.

To qualify, broker/dealers must meet the following *minimum* requirements:

- Agree to comply with the investment policies of the Authority
- Be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule)
- Have a branch office in California
- Be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies
- Have been in business for at least three years
- Provide current audited financial statements
- Provide proof of Financial Industry Regulatory Authority (FINRA) certification

To verify qualifications, OCFA requires completion of a “Broker/Dealer Questionnaire & Certification”, based on guidelines of the Government Finance Officers’ Association. The questionnaire addresses capital adequacy standards, history of SEC complaints, staff qualifications, and references. Both the account representative and the individual in charge of government securities operations must sign certifying the accuracy of their responses to the questionnaire and pledging due diligence in informing OCFA staff of all foreseeable risks in financial transactions conducted with OCFA. They must also certify that they’ve read OCFA’s Investment Policy and that they’ve implemented a system of controls designed to preclude imprudent investment activities that are in conflict with OCFA’s investment objectives, strategies, and risk constraints. A copy of each firm’s questionnaire and certification is on file in the Treasurer’s Office and available upon request.

In addition to the standard requirements, other factors such as competitiveness of quotes, responsiveness, reputation, and reliability are also considered in the annual review process. This year, all three of the firms are recommended for renewal due to the exceptional service they have provided over the past year:

- FTN Financial
- Raymond James
- UBS Financial Services

In addition to being responsive to the Treasurer’s specific requests, the firms recommended for renewal consistently provide daily inventory/pricing lists and comprehensive updates on the economy and fixed income markets. Furthermore, the specific brokers from these firms are familiar with OCFA’s Investment Policy and practices, which results in more efficient trading.

Impact to Cities/County:

Not Applicable.

Fiscal Impact:

Not Applicable.

Staff Contacts for Further Information:

Patricia Jakubiak, Treasurer

triciajakubiak@ocfa.org

(714) 573-6301

Jane Wong, Assistant Treasurer

Janewong@ocfa.org

(714) 573-6305

Attachment:

OCFA’s Investment Policy Excerpt Regarding Broker/Dealers



ORANGE COUNTY FIRE AUTHORITY

INVESTMENT POLICY

Excerpt Regarding Broker/Dealers

Calendar Year 2014

8. **Authorized Financial Dealers and Institutions**: To promote the optimum yield on the investment of Authority funds, investment procedures shall be designed to encourage competitive bidding on transactions from approved financial institutions or broker/dealers.
- 8.1. On an annual basis, the Treasurer shall recommend a list of at least three financial institutions and broker/dealers who are authorized to provide investment services. The list shall be approved by the Budget and Finance Committee and the Executive Committee. All financial institutions and broker/dealers who wish to be considered for the list must meet the following minimum requirements:
- 8.1.1 Must certify that they have read and agree to comply with the investment policies of the Authority.
- 8.1.2 Must be a primary or regional dealer that qualifies under the Securities and Exchange Commission Rule 15C3-1 (Uniform Net Capital Rule).
- 8.1.3 Must have an branch office in California.
- 8.1.4 Must be experienced in institutional trading practices and familiar with the California Government Code as related to investments for local governmental agencies.
- 8.1.5 Must have been in business for at least three years.
- 8.1.6 Must provide current audited financial statements.
- 8.1.7 Must provide proof of National Association of Security Dealers certification.
- 8.1.8 Other criteria as may be established in the *Investment Procedures Manual* of the Authority.
- 8.2. All financial institutions in which the Authority's public funds are deposited will supply the Treasurer with the following:
- 8.2.1 Current audited financial statements.
- 8.2.2 Depository contracts.

8.2.3 A copy of the latest FDIC call report.

8.2.4 Proof that the institution is state or federally chartered.

DISCUSSION CALENDAR – AGENDA ITEM NO. 5
BUDGET AND FINANCE COMMITTEE MEETING
January 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Patricia Jakubiak, Treasurer

SUBJECT: **Use of External Investment Manager**

Summary:

This agenda item is submitted as a follow-up to the November 6, 2013, Budget and Finance Committee meeting and the November 21, 2013, Board of Directors meeting.

Recommended Actions:

Review the proposed agenda item and provide direction to staff on whether the Budget and Finance Committee recommends the OCFA's Treasurer to:

1. Continue to invest funds internally, or
2. Hire an external investment manager and pursue modifications to the Investment Policy to provide more flexible guidelines.

Background:

At the November 21, 2013, Board of Directors meeting, the Board approved OCFA's 2014 Investment Policy and directed staff to return to the Budget and Finance Committee in January to discuss the option of using an outside investment manager. The issue was originally raised by Director Baker of San Clemente at the July 25, 2013, Board meeting.

The following language is from OCFA's Investment Policy which does permit the use of an external investment manager:

9. Authorized Investment Advisors and Investment Managers:

Authorized Investment Advisors

Although the Authority does not currently use an investment advisor, these policies and procedures shall be applicable if an investment advisor is utilized in the future to provide advice and guidance for the investment of OCFA portfolio funds. Under Government Code, the Authority is authorized to engage specially trained and experienced firms for economic advice and services. The Board of Directors must approve, in advance, all contracts with an investment advisor, after review by the Authority's Counsel. The investment advisor may only provide advice and may not effectuate trades; he/she may not make investment decisions. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy.

Authorized Investment Managers

The provisions above for authorized investment advisors also apply to authorized investment managers. In addition, an investment manager may effectuate trades upon specific authorization for each transaction; however, he/she may not make investment decisions. All investment decisions must be made and approved by the Treasurer in advance, before the investment manager is authorized to execute a transaction. The Treasurer shall provide the investment manager with a copy of the Authority's Investment Policy. Upon execution of any trade, the Authority must receive confirmation directly from the broker/dealer and the custodian, not from the investment manager. Investments recommended by the investment manager should be safe kept by the Authority's regular custodian, and not with the investment manager.

Fees

The fees paid to an investment manager are a variable cost, fluctuating with the size of the portfolio. OCFA could expect to pay approximately 8 basis points or .08% of the OCFA portfolio value. As an example, based on the FY 2012/13 average portfolio size of \$128 million, the fee would be \$102,400.

Another way to look at it is in today's market with the federal funds rate at the 0.0% - 0.25% range, ideally the investment manager would earn the market rate of return plus their fee, or 0.33% (0.25% + .08%). If the investment manager can only earn the market rate of return, then OCFA could actually earn a below market return once the fee is taken into account or 0.17% (0.25% - .08%).

Guiding Principles

Whether OCFA's funds are invested internally or externally, the existing guiding principles remain the same, which are stated in OCFA's Investment Policy as follows:

4. Objectives: The primary objectives of investment activities, in order of priority, shall be:

4.1 Safety: Safety of principal is the prime objective of the investment program. The investment program shall be designed and implemented to ensure preservation of capital in the overall portfolio. Invested funds shall be diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity, specific issuer, or specific class of securities.

4.2 Liquidity: The investment portfolio shall be structured in a manner which strives to time the maturity of securities with cash requirements. Additionally, since not all possible cash demands can be anticipated, the portfolio should consist of securities with an active secondary or resale market.

4.3 Return on investment: The Authority shall attempt to obtain a reasonable return provided that the requirements of safety and liquidity are first met.

The main reason to use an outside investment manager is to try and earn an above market rate of return; however, since return on investment is the lowest priority in the Investment Policy, the Board may wish to consider modifying the stated Policy priorities in conjunction with any direction to staff to pursue these services. In addition, it is important to note that the rate of return is not guaranteed with the use of an outside investment manager and; therefore, pursuit of these services could result in additional costs to OCFA.

If the Board chooses to use an outside investment management firm, it may also want to consider additional changes to the Investment Policy. The current policy allows an investment manager to effectuate trades but not to make investment decisions. This would still be done by the Treasurer which is inefficient. In addition, the Board may also want to consider expanding the permitted investments in order to provide more investment options and flexibility in achieving a higher rate of return.

Summary & Conclusion

Below are some of the pros and cons of using an outside investment manager:

Reasons for Hiring an External Investment Manager

1. Full-time attention – professional managers devote full time attention to managing portfolios. They can watch and assess the markets and different types of securities better than those who do so only part-time.
2. Specialized capabilities – the external manager has very sophisticated and sometimes proprietary software and computer systems and can employ investment strategies that are not available to in-house treasury managers.
3. Economies of scale - the external manager's volume of business can lead to trading efficiencies, access to market information, and investment opportunities not always available to smaller investors.

Reasons not to Hire an External Investment Manager

1. Size of portfolio – must be of sufficient size and stability to allow the manager to reasonably add value.
2. Flexible investment guidelines - investment guidelines should be flexible in terms of allowable investments and maturity. An investment manager restricted to specific securities or certain quality parameters will probably not add much value versus in-house management.
3. Control – A written agreement would need to specify an agency's unique investment goals, risk tolerance, and expectations to reduce any fear of losing control of the portfolio to an outside manager.

The main reason for hiring an external investment manager is the expectation that the fees paid may lead directly to an increase in returns – even though there is no guarantee that an outside professional can deliver better results. OCFA would still have to pay fees even when the investments underperform.

Staff finds both of the following options to be viable approaches and will implement whichever option the Committee prefers:

1. Continue to invest funds internally, or
2. Hire an external investment manager and pursue modifications to the Investment Policy to provide more flexible guidelines

Impact to Cities/County:

None

Fiscal Impact:

If an external investment manager can earn above the market rate of return and cover their fee, then there would be no additional cost to OCFA. However, if they do not earn above the market return, then OCFA could be at risk of earning a below market return and also possibly having to pay an additional fee directly to the investment manager.

Staff Contacts for Further Information:

Lori Zeller

LoriZeller@ocfa.org

(714) 573-6020

Tricia Jakubiak

TriciaJakubiak@ocfa.org

(714) 573-6301

Attachments:

None

DISCUSSION CALENDAR - AGENDA ITEM NO. 6
BUDGET AND FINANCE COMMITTEE MEETING
January 8, 2014

TO: Budget and Finance Committee, Orange County Fire Authority

FROM: Lori Zeller, Assistant Chief
Business Services Department

SUBJECT: **FY 2013/14 Mid-Year Financial Report**

Summary:

This item is submitted to provide a mid-year financial update on the FY 2013/14 budget in accordance with the OCFA's Fiscal Health Plan.

Recommended Actions:

Review the proposed agenda item and direct staff to place the item on the agenda for the Board of Directors meeting of January 23, 2014, with the Budget and Finance Committee's recommendation that the Board of Directors take the following actions:

1. Direct staff to implement all necessary budget adjustments to allocate \$3,000,000 of the \$6,134,590 of available unencumbered funds identified in the 2012/13 annual financial audit to the OCFA's Unfunded Actuarial Accrued Liabilities with the Orange County Employees Retirement System, and allocate any remaining funds to the OCFA's Capital Improvement Program for capital needs.
2. Direct staff to implement all necessary budget adjustments to issue the 2013/14 equity payment to the City of Irvine in the amount of \$5,976,162, in accordance with the Second Amendment to the Amended Joint Powers Agreement.
3. Direct staff to implement necessary budget adjustments to unfreeze specified positions for the Community Risk Reduction and Business Services Departments, as explained herein.
4. Direct staff to return to the Board of Directors in March 2014, for approval of all additional budget adjustments discussed herein for the FY 2013/14 budget.

Background:

The updated Fiscal Health Plan, approved by the Board in November 2013, calls for a comprehensive system to monitor OCFA's fiscal performance. This includes a review and comparison of forecasted revenues and expenditures against actual revenues and expenditures, as well as a mid-year budget review. The attached report reviews the current year budget, highlights any potential financial challenges to the OCFA, and previews anticipated 2014/15 budget issues.

FY 2013/14 Budget Review

Significant changes have occurred since the budget was adopted in May 2013, including, increases to beginning fund balance, increase in secured property taxes, increases in both revenue and expenditures related to assistance-by-hire emergency responses, as well as all approved adjustments to date that include rebudgets and new grant funds. In addition, increases in service demands impacting the Community Risk Reduction and Business Services

Departments have prompted a need to re-evaluate staffing levels and frozen positions in these areas. These changes are detailed in the attached Mid-Year Financial Report.

FY 2013/14 Result of “Trigger” Formula Calculation for Base Salary Increase Determination

In accordance with Memorandums of Understanding (MOU) with all labor groups, a “trigger” formula calculation has been used to determine whether employee base salary increases shall be scheduled for February 2014. This “trigger” calculation determines how much is available for increases to base salaries, after funding all general fund expenditures, the incremental increase to the contingency fund balance, and designating 5% of general fund expenditures for transfer to the Capital Improvement Funds.

The attached calculation (Exhibit 1) is based on figures from the 2013/14 adopted budget as well as the actual secured property tax initial tax levy from the County as required by the agreed upon methodology. The calculation for this year resulted in a negative \$8.6 million, indicating that there are no funds available for “triggered” base salary increases.

FY 2012/13 Fund Balance

As part of the mid-year review, prior year final fund balances were also reviewed. The audited financial statements for the fiscal year ended June 30, 2013 identified approximately \$6.1 million in unencumbered fund balance. Staff’s recommendation for the use of those funds includes the following:

- Allocate \$3 million to the OCFA’s Unfunded Actuarial Accrued Liability with the Orange County Employees’ Retirement System, in compliance with the accelerated paydown plan that was approved by the Board in September 2013.
- Allocate any remaining funds to the OCFA’s Capital Improvement Program for capital needs.

FY 2013/14 Equity Payment

With the ratification of the Second Amendment to the Joint Powers Agreement, Jurisdictional Equity Adjustment Payments (JEAPs) are required for qualifying Structural Fire Fund (SFF) members. The Second Amendment to the JPA specifically provides that the City of Irvine be paid 100% of their JEAP in FY 2013/14, while JEAPs for other SFF members will be incrementally phased in beginning with FY 2014/15.

The JEAP calculation has been performed and is attached as Exhibit 2. The calculation determined that a JEAP of \$5,976,162 must be made to the City of Irvine. Although the financial forecast model was updated to include a JEAP to Irvine in FY 2013/14, the budget itself was not adjusted since the 2nd Amendment was still in the process of being ratified. Therefore, staff is recommending a budget adjustment to make the required payment.

Impact to Cities/County:

Annual increases for cash contract cities are projected to remain below the 4.5% cap on annual increases, as shown by projected expenditures in the Five-Year Financial Forecast. Annual increases over the next three years are currently estimated at 3.8% for FY 2014/15, 2% for FY 2015/16, and 2% for FY 2016/17 (excluding the catch up provision).

Fiscal Impact:

Financial impact has been presented in the attached report.

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Attachment:

Mid-year Financial Report

Exhibit 1 – “Trigger” Formula Calculation

Exhibit 2 – JEAP Calculation

Exhibit 3 – Trend Graph -- Forecast to Actual comparison

Exhibit 4 – Updated Five-Year Financial Forecast

Exhibit 5 – Five-Year Financial Forecast Assumptions

ORANGE COUNTY FIRE AUTHORITY

Mid-Year Financial Report

January 2014

In November 2013, the Board of Directors approved the updated Fiscal Health Plan and Financial Stability Budget Policies. These documents describe the Authority's strong fiscal policies, a comprehensive system for monitoring OCFA's fiscal performance, and a framework to assure timely and appropriate response to adverse fiscal circumstances. Included in the Fiscal Health Plan is the requirement for a mid-year financial report, which is presented here for the Budget and Finance Committee's review.

ECONOMIC OUTLOOK

Property tax is OCFA's largest source of revenue, therefore the outlook on economic factors impacting property values are briefly discussed here. The November 2013 Chapman forecast estimates a final 5.6% increase in 2014 for the median resale price of a single-family home in Orange County, which is an overall slowdown in home appreciation in 2014 as compared to 2013. Impacting the housing market is the projected rise in mortgage rates, which coupled with higher home prices, will make homes less affordable. On the supply side, Chapman also forecasts more resale housing units entering the market in 2014. Chapman states "With the rebound in home prices, many underwater home owners are recapturing lost equity."

Chapman estimates that construction spending will be on the rise in 2014, "We are projecting the total value of building permit valuation to increase by about 15.0 percent in Orange County..." This will have a longer term positive benefit for OCFA's largest revenue source, property tax, as constructed properties are sold and/or reassessed after improvements are made.

CURRENT FISCAL YEAR FINANCES

The following are estimated changes to the General Fund budget that are needed since the adoption of the FY 2013/14 budget in May 2013. Overall the currently proposed changes in the General Fund result in an estimated total revenue increase of approximately \$7.8 million and an estimated total expenditure increase of \$8.7 million when the JEAP payment to Irvine is included. Staff expects to return in March 2014 to request budget adjustments in the required areas:

FY 2013/14 Potential Revenue Adjustments

- **Property Tax Revenue:** Based on the County tax ledger initial billing, secured property tax revenue increased by 3.79% over last year's billing and, after adjusting for estimated refunds, the projected increase is estimated to be \$1.4 million more than the current budget.
- **Supplemental Property Tax:** Based on current receipts of Supplemental Property Taxes, the budget has been exceeded by approximately \$600,000 to-date and a corresponding amount will be included in the Mid-Year Budget Adjustment. This revenue source can vary greatly from year-to-year and is difficult to predict with precision. As we approach March, this revenue source will be evaluated again.
- **Assistance-by-Hire (ABH):** OCFA is reimbursed for expenses incurred when our personnel are deployed to assist with out-of-county emergencies. Current year ABH reimbursements are approximately \$2.9 million greater than budget due to various out-of-county responses.

- **Inspection Services:** An increase of approximately \$1.2 million is estimated for inspection services fees to account for last fiscal year inspections billed in the current fiscal year. Inspections have been traditionally performed and tracked on a calendar year basis, but beginning with FY 2014/15, annual inspections will be revised to be performed on a fiscal year basis to align these revenues with the fiscal year.
- **Planning & Development (P&D) Fees:** P&D Fees are estimated at \$1.9 million over the adopted budget. This is due to an increase in construction plans submitted for OCFA review. As discussed in the Chapman forecast, there was a 23.5 percent increase in permit valuation in early 2013. This trend is expected to continue with a 15 percent increase forecasted for calendar year 2014. In order to keep pace with this added service demand, a corresponding expenditure increase is requested below for funding of P&D staff positions which were vacated and frozen during the economic recession.

FY 2013/14 Potential Expenditure Adjustments

- **Equity Payments:** The ratification of the Second Amendment to the JPA institutes equity payments to the overfunded Structural Fire Fund members as determined by a defined formula. The calculation has been performed for FY 2013/14 and a Jurisdictional Equity Adjustment Payment (JEAP) of approximately \$5.9 million is due to the City of Irvine. Exhibit 2 shows the calculation for FY 2013/14.
- **Assistance-by-Hire (ABH):** As stated above in regards to Revenue Adjustments, OCFA is reimbursed for expenses incurred when our personnel are deployed to assist with out-of-county emergencies. Current year ABH expenditures are estimated at \$2.4 million.
- **Staffing Needs:** The Community Risk Reduction (CRR) and Business Services Departments have experienced significant increases in service demands, requiring a need to reassess the level of staffing and frozen positions in these Departments. Proposed staffing adjustments include the following, and if approved in March will be pro-rated for the remaining portion of FY 2013/14:
 - **Planning & Development:** This Section has been impacted by a rapid return of construction activity in Orange County. Providing service to the development community without causing delays in turnaround times will require us to unfreeze and fill two vacant Senior Fire Prevention Specialist positions, for an estimated annual cost of \$280,000. These costs will be offset with increased P&D fee revenue driven by higher volume.
 - **Purchasing:** This Section has been impacted by a sharp increase in the volume of purchasing activity, numerous competitive bid processes, and a high volume of vendor competition. The increased competition produces positive outcomes, yet it also requires increased time for review, evaluation, and processing of bid submittals and contract awards. Staff is recommending to unfreeze one vacant Assistant Purchasing Agent position for an estimated annual cost of \$130,000.
 - **Clerk of the Authority:** This Section has been impacted by substantial increases in Public Records Requests, subpoena activity, and increased frequency of Board and Committee meetings. Keeping pace with these service demands is driving the need to add staffing. Staff is proposing to unfreeze one vacant Management Assistant position for an estimated annual cost of \$97,750.

- **Finance:** This Section is experiencing increased workload associated with responding to bulk data requests from the District Attorney and completing the HMD refund process. Two extra help / temporary employees are needed to help retrieve and organize the requested data, and to assist in processing vouchers for HMD customers that are due a refund. The estimated cost of temporary services is \$50,000.
- **Emergency Medical Services Consultant:** A contract for an Emergency Medical Services consultant in the amount of \$48,125 was approved by the Executive Committee in December 2013. The costs cannot be absorbed in the existing budget and will be included in the Mid-Year budget adjustment.
- **Labor Negotiator:** In December 2013 the Board approved the appointment of the firm, Liebert Cassidy Whitmore to perform employee MOU negotiations on behalf of the OCFA. The services require a budget adjustment of between \$75,000 and \$125,000 depending on the ultimate use of a contingency and will be included in the Mid-Year budget adjustment request in March.
- **Strategic Communications/Management Analysis:** Purchase orders with Management Partners and SAE Communications were approved by the Board in November 2013. It appears unlikely that the combined costs of approximately \$150,000 can be absorbed in the budget, therefore they will be included in the Mid-Year budget adjustment request.
- **Workers Compensation Actuarial Update:** The most recent actuarial report from July of 2013 indicates that an additional \$62,496 is required to maintain the 50% confidence level in the current fiscal year. The funding will be increased to a 60% confidence level in future years.
- **Transfers from CIP Funds to General Fund:** Approximately \$272,000 in expenditures is proposed to be transferred from CIP Funds 124 and 133 (Communications/Information Systems Replacement and Vehicle Replacement) to the General Fund (121). This transfer is to properly account for projects which have recently transitioned from Capital Improvements (purchase, installation and testing of new business systems) to ongoing operating maintenance. In the case of Fund 133, expenditures for a required helicopter inspection and rescue hoist overhaul were reclassified as maintenance. The impact to the General and CIP funds in future years is being analyzed and will be presented concurrent with the Proposed FY 2014/15 budget.

General Fund – Beginning Fund Balance Adjustment

Beginning Fund Balance - General Fund beginning fund balance will be adjusted in accordance with the 2012/13 year-end audit. This increase resulted primarily from salary savings due to vacancies as well as S&S savings.

FY 2013/14 Result of “Trigger” Formula Calculation for Base Salary Increase Determination

In accordance with Memorandums of Understanding (MOU) with all labor groups, a “trigger” formula calculation has been used to determine whether employee base salary increases shall be scheduled for February 2014. This “trigger” calculation determines how much is available for increases to base salary, after funding all general fund expenditures, the incremental increase to the contingency fund balance, and designating 5% of general fund expenditures for transfer to the Capital Improvement Funds.

The attached calculation (Exhibit 1) is based on figures from the 2013/14 adopted budget as well as the actual secured property tax initial tax levy from the County as required by the agreed upon methodology. The calculation for this year resulted in a negative approximately \$8.6 million, indicating that there are no funds available for “triggered” base salary increases.

The “trigger” formula calculation applies to all OCFA employees as of February 2014.

FY 2013/14 Capital Improvement Funds

- Facilities Maintenance & Improvements (Fund 122) – Cost containment in this fund continues by only completing projects deemed vital for operational readiness. A Community Development Block Grant (CDBG) in the amount of \$890,000 was approved by the Board in September for improvements to Fire Station 71 through 79 in Santa Ana. As a result of the fiscal year 2012/13 annual audit, beginning fund balance will increase by approximately \$300,000.
- Facilities Replacement (Fund 123) – The purchase of the second half of the hangar at Station 41 (Fullerton Airport) closed on July 1, 2013, rather than June 30, 2013 as anticipated. The construction for Fire Station 56 (Ladera) is to begin in early 2014. As a result of the fiscal year 2012/13 annual audit, beginning fund balance will increase by approximately \$2.7 million.
- Communications & Information Systems Replacement (Fund 124) – The Public Safety Systems Project is well under way and all contract awards are expected to be complete by June 30, 2014. As a result of the fiscal year 2012/13 annual audit, beginning fund balance will increase by approximately \$3 million.
- Vehicle Replacement (Fund 133) – Cost containment continues with staff attempting to defer vehicle purchases whenever possible. As a result of the fiscal year 2012/13 annual audit, beginning fund balance will increase by approximately \$3.9 million.

FUTURE FISCAL YEAR FINANCES

Significant factors that are anticipated to influence the FY 2014/15 budget include:

- **Equity Payments** – The ratification of the second amendment to the JPA will institute equity payments to the overfunded Structural Fire Fund members as determined by a defined formula. Although the long range forecast anticipates the ability to make these Jurisdictional Equity Adjustment Payments, (JEAP) they will affect the OCFA’s cash position on an annual basis.
- **Property Taxes** - Since property tax is the largest source of income for the General Fund at about 62% we have again contracted with Rosenow, Spevacek Group, Inc. (RSG) to update our property tax projections. Updated preliminary information for our 2014/15 budget will not be available until February 2014; therefore, in the interim we are continuing to use RSG’s prior projection for 2014/15 through 2017/18 of the Five-Year Financial Forecast. The Chapman Economic Forecast projected that property tax revenue will show continued, albeit slow, growth.
- **Retirement Rates** - The Orange County Employees Retirement System (OCERS) Board has adopted retirement rates for 2014/15. Employer rates for safety employees will increase by approximately 4.4% of pay and employer rates for general employees will increase by 4% of pay

compared to rates used to develop the 2013/14 budget adopted in May 2013. This reflects the impact of OCERS' 0.50% decrease in the assumed rate of return from 7.75% to 7.25%. The impact of this change is being phased-in over two fiscal years, starting in FY 2014/15, with rates scheduled to increase further in FY 2015/16 under current assumptions.

OCFA again plans to prepay one-half of our annual retirement contributions in January 2014 for 2014/15, which will save approximately \$2.1 million based on OCERS revised 7.25% discount rate.

PENDING ISSUES

- **TRAN** – The OCFA is anticipating the need to issue a Tax and Revenue Anticipation Note (TRAN) in early Fiscal Year 2014/15. In recent years the Authority has been able to take advantage of inter-fund borrowing to accommodate cash flow needs. With the Information Technology team making excellent progress on the Public Safety Systems Project and other capital projects underway, inter-fund borrowing is projected to be insufficient. Additionally the payment of JEAPs depletes the General Fund as a source of cash. The TRAN will provide for short-term cash needs until we receive our regular property tax payment from the Auditor-Controller, which typically occurs in December and April.
- **Prepayment of Retirement to OCERS** – OCERS has indicated they may reevaluate the discount program next year which could lead to a lowering of the prepayment discount or an elimination of the program. The current discount presents approximately \$2.1 million in annual savings, which is included in the budget and financial forecast. Although we were able to take advantage of this discount in the current fiscal year, staff continues to monitor this area and will report back to the Board should OCERS take such an action.

MONITORING FINANCIAL HEALTH

Financial Forecast

The Fiscal Health Plan directs staff to monitor our financial indicators through frequent updates to the Authority's Five Year Financial Forecast, measuring revenues, expenditures, debt, and committed and uncommitted fund balance. These categories are forecast using all available information, Board actions, and economic conditions (Exhibits 4 and 5).

A trend report has been developed comparing the differences between the forecasted data and actual financial results and is attached to this Review as Exhibit 3.

Accelerated Paydown of UAAL

The FY 2013/14 Adopted Budget included an initial payment of \$2.7 million towards accelerated paydown of the OCFA's Unfunded Actuarial Accrued Liability (UAAL) with OCERS. This proposed mid-year review also includes an additional \$3 million lump sum payment towards the UAAL, in

compliance with the plan adopted by the Board in September 2013. With approval of this agenda item, total accelerated payments for FY 2013/14 will be \$5.7 million.

Reconciliation of Fee Funded Programs

Staff has completed the reconciliation of FY 2012/13 Fee Funded Programs. Based on the volume of activity in FY 2012/13 and the corresponding fee-component which provides for automation and vehicle replacement, staff recommends a transfer of \$251,180 to the CIP Funds. Of this amount, \$165,775 is for Planning and Development (P&D) business system software replacement and program-specific vehicles. The remaining amount of \$85,405 is for Safety and Environmental Services (S&ES) business system software replacement and program-specific vehicles.

OCFA TRIGGER FORMULA
 (Reformatted from the Five Year Financial Forecast - Baseline Model)
 FY 2013-14

GENERAL FUND REVENUES	GENERAL FUND EXPENDITURES
Property Taxes	188,352,230 *
State Reimbursements	4,193,788
Federal Reimbursements	100,000
One-Time Grant Proceeds	
CRA Pass-Thru's	7,149,498
Cash Contracts	83,980,236
Haz Mat Services Section	-
Fire Prevention Fee	5,608,437
ALS Supplies & Transport Reimbursement	4,570,574
Interest Earnings	221,379
Other Revenue	998,584
TOTAL REVENUES (A)	295,174,726
GENERAL FUND SURPLUS/(DEFICIT) = (A-B)	5,851,356
Fund 5% of General Fund Expenditures to CIP	(14,447,993)
TRIGGER FORMULA FUNDS AVAILABLE - ALL GROUPS	(8,596,637)

Salaries	167,037,200
Retirement	62,484,495
Worker's Comp	12,763,412
Insurance, Medicare, Etc.	24,243,572
Salaries & Employee Benefits	266,528,679
Services & Supplies/Equipment	22,431,181
One-Time Grant Expenditures	-
TRAN Debt Service - Interest Expense	-
Incremental Increase to Contingency Fund Balance	363,510 (a)
TOTAL EXPENDITURES (B)	289,323,370

(a) This item is in addition to the total shown for General Fund expenditures on the Five Year Financial Forecast. For purposes of the Forecast, this item is reflected in Section B. Should additional increases be needed to replenish Contingency Fund Balance that may have been used for budget deficits, these increases will be funded first from the cash flow fund balance.

(excludes incremental increase to Contingency Fund Balance)

* - FY 2013/14 adopted total property tax amount adjusted by the FY 2013/14 secured property tax ledger. Assumes 1% roll change/refund factor.

**Orange County Fire Authority
FY 2013/14 Equity Calculations
Updated 12/10/2013**

I. Calculate Average SFF Rate				
Description	Agmt. Ref.	Source	Amount	Calculation
Total SFF Revenue Figure	Pg. 3, Sec. 4.A.(1)	AT68AD-73 Auditor Controller Accumulation of Combined Prior Year and Current Year ATI	186,395,536	[A]
Total AV Figure	Pg. 4, Sec. 4.A.(2)	AT04VC-74 Auditor Controller District Values Used to Set Tax Rates	161,139,157,766	[B]
SFF Basic Levy Figure	Pg. 4, Sec. 4.A.(3)	Total AV Figure X 1%	1,611,391,578	[C] = [B] X 1%
Average SFF Rate	Pg. 4, Sec. 4.A.(4)	SFF Revenue Figure / SFF Basic Levy Figure	11.57%	[D] = [A] / [C]

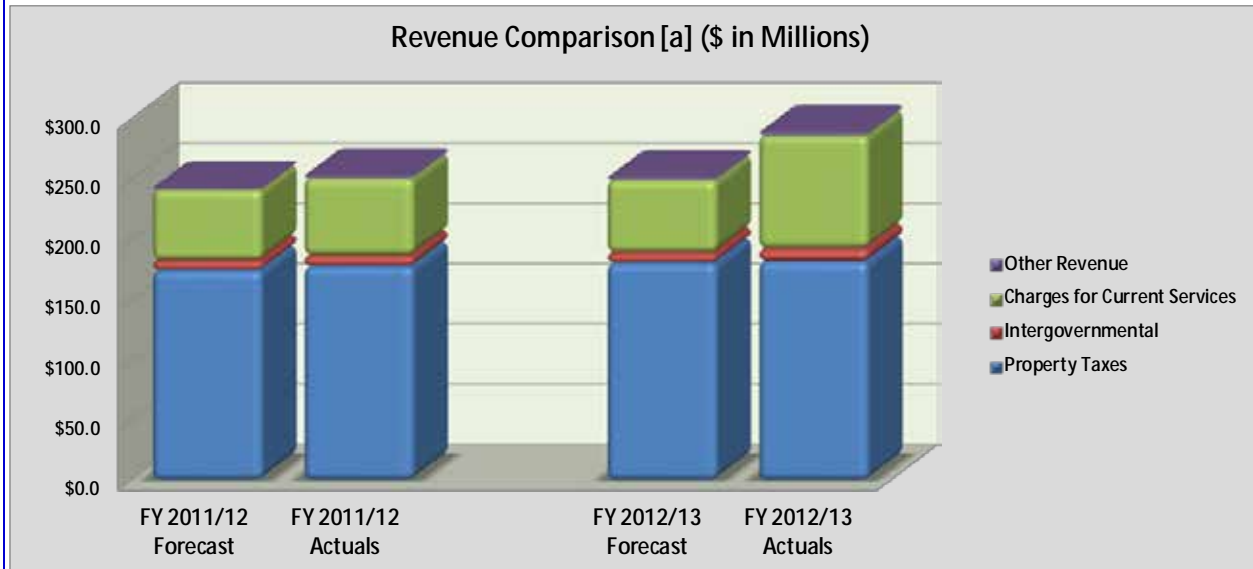
II. Calculate Jurisdictional Equity Adjustment Payment						
City	Jurisdictional SFF Revenue Figure per Auditor-Controller AT68AD-73 Report	Jurisdictional AV Figure per Auditor-Controller AT04VC-74 Report (L&I)	Jurisdictional Basic Levy Figure	Jurisdictional SFF Rate	Over-Funded SFF Jurisdictions	Jurisdictional Equity Adjustment Payment
Agreement Ref. Calculation	Pg. 5, Sec. 4.A.(5).a [E]	Pg. 5, Sec. 4.A.(5).b [F]	Pg. 5, Sec. 4.A.(5).c [G]=[F] X 1%	Pg. 5, Sec. 4.A.(5).d [H]=[E] / [G]	Pg. 5, Sec. 4.A.(6) IF [H] > [D]	Pg. 6, Sec. 4.A.(6) [I]=([H]X[G])-(D)X[G]
Aliso Viejo	9,078,539	7,947,226,931	79,472,269	11.42%		
Cypress	4,302,153	4,810,136,198	48,101,362	8.94%		
Dana Point	10,324,890	8,984,563,110	89,845,631	11.49%		
Irvine	62,818,290	49,140,086,019	491,400,860	12.78%	11.57%	5,976,162
Laguna Hills	5,819,188	5,637,507,768	56,375,078	10.32%		
Laguna Niguel	12,988,031	12,375,151,672	123,751,517	10.50%		
Laguna Woods	2,614,707	2,240,278,497	22,402,785	11.67%	11.57%	23,296
Lake Forest	11,764,437	10,193,700,127	101,937,001	11.54%		
La Palma	1,365,622	1,484,791,222	14,847,912	9.20%		
Los Alamitos	1,619,355	1,624,069,697	16,240,697	9.97%		
Mission Viejo	14,051,316	13,149,054,138	131,490,541	10.69%		
Rancho Santa Margarita	8,305,384	6,748,149,156	67,481,492	12.31%	11.57%	499,554
San Juan Capistrano	6,089,775	5,293,380,092	52,933,801	11.50%		
Villa Park	1,493,780	1,462,711,908	14,627,119	10.21%		
Yorba Linda	9,091,605	9,831,129,109	98,311,291	9.25%		
County Unincorporated	24,668,464	20,217,222,122	202,172,221	12.20%	11.57%	1,282,466
Total OCFA SFF	186,395,536	161,139,157,766	1,611,391,578			7,781,477

Per 2nd Amendment to JPA, only Irvine receives a JEAP in FY 2013/14

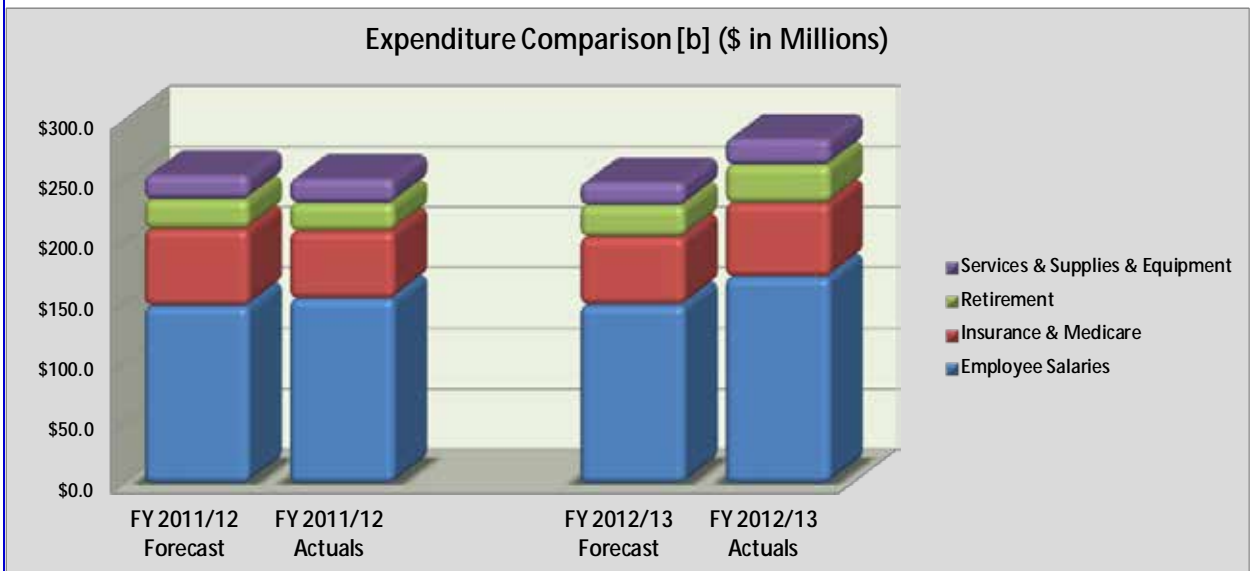
2013 Trend Analysis: Summary of 2-Year Forecast vs. Adjusted Actuals

Comparison of 2011/12 Forecast as Presented in 2010/11 Adopted Budget to 2011/12 Actuals
and

Comparison of 2012/13 Forecast as Presented in 2011/12 Adopted Budget to 2012/13 Actuals



[a] Actual revenue adjusted for one-time sources not forecasted such as assistance by hire revenue, grant revenue, and one-time revenue associated with RDA dissolutions. Difference between forecast and actuals in FY 2012/13 primarily due to Santa Ana joining OCFA.



[b] Actual expenditures adjusted for one-time items not forecasted such as Santa Ana start-up costs and grant expenditures. Difference between forecast and actuals in FY 2012/13 primarily due to Santa Ana joining OCFA.

Updated* Five-Year Financial Forecast

*Includes all Board approved adjustments and proposed Mid-Year adjustments

	ADJUSTED 2013/14	PROJECTED 2014/15	PROJECTED 2015/16	PROJECTED 2016/17	PROJECTED 2017/18
A. BEGINNING FUND BALANCE	172,407,421	145,069,586	144,468,058	145,163,077	138,699,876
GENERAL FUND REVENUES					
Property Taxes	189,027,422	194,350,768	201,938,132	210,197,029	218,388,691
State Reimbursements	4,193,788	4,193,788	4,193,788	4,193,788	4,193,788
Federal Reimbursements	100,000	100,000	100,000	100,000	100,000
One-Time Grant/ABH/RDA	5,501,565	-	-	-	-
Community Redevelopment Agency Pass-thru	7,149,498	7,326,880	7,511,172	7,706,470	8,248,676
Cash Contracts	83,575,236	87,416,379	89,848,537	92,283,088	94,727,685
Community Risk Reduction Fees	8,645,437	6,652,190	6,851,756	7,057,308	7,269,028
ALS Supplies & Transport Reimbursement	4,570,574	4,570,574	4,570,574	4,570,574	4,570,574
Interest Earnings	221,379	432,380	631,649	820,198	1,190,872
Other Revenue	1,337,522	1,118,663	1,118,663	1,118,663	1,118,663
TOTAL REVENUES	304,322,421	306,161,622	316,764,271	328,047,119	339,807,977
GENERAL FUND EXPENDITURES					
New Positions for New Stations		1,091,834	2,201,862	2,231,538	4,489,004
Employee Salaries	166,913,934	167,080,078	167,080,078	167,080,078	167,080,078
Retirement - Regular Annual Payments	59,973,920	68,754,441	71,155,679	70,776,041	70,542,444
Retirement - Paydown of UAAL (Rate Savings)	2,500,000	-	1,292,059	1,653,114	1,886,420
Retirement - Paydown of UAAL (Unencumbered Funds from 12/13)	3,000,000				
Retirement - Paydown of UAAL (\$1M per Year)				1,000,000	2,000,000
Workers' Comp Transfer out to Self-Ins. Fund	12,825,908	13,811,667	14,156,139	14,580,823	15,018,248
Other Insurance	22,034,649	24,082,990	26,282,570	28,693,846	31,333,679
Medicare	2,202,881	2,422,661	2,422,661	2,422,661	2,422,661
One-Time Grant/ABH Expenditures	3,576,632	-	-	-	-
Salaries & Employee Benefits	273,027,924	277,243,671	284,591,049	288,438,101	294,772,534
Services & Supplies/Equipment	23,188,369	23,575,686	23,575,686	23,575,686	23,575,686
New Station/Enhancements S&S Impacts		50,653	104,345	107,475	221,399
One-Time Grant Expenditures	1,350,000	-	-	-	-
TOTAL EXPENDITURES	297,566,293	300,870,010	308,271,080	312,121,262	318,569,619
NET GENERAL FUND REVENUE	6,756,128	5,291,613	8,493,191	15,925,857	21,238,358
B. Incremental Increase in GF 10% Contingency	-	1,304,150	610,901	248,913	521,505
Equity Payments	5,976,162	2,017,438	4,225,671	8,325,105	9,230,171
Equity - Accrued Pmt to Irvine from 14/15 & 15/16				4,648,167	3,245,308
GENERAL FUND SURPLUS / (DEFICIT)	779,967	1,970,025	3,656,619	2,703,672	8,241,374
C. Operating Transfers to/(from) GF Cashflow	-	-	-	-	-
Transfers to CIP from General Fund Surplus	779,967	1,970,025	3,656,619	2,703,672	8,241,374
Transfers to CIP from Cash Flow Fund/Unencumbered Funds from 12/13	3,717,880	-	-	-	-
Total Operating Transfers to CIP	4,497,847	1,970,025	3,656,619	2,703,672	8,241,374
Capital Improvement Program/Other Fund Revenues					
Interest Earnings	486,293	944,516	1,434,362	1,879,623	1,469,454
State/Federal Reimbursement	1,810,000				
Cash Contracts	1,593,373	1,665,900	1,707,777	1,750,910	1,795,337
Developer Contributions	5,508,556				
Workers' Comp Transfer in from GF	12,825,908	13,811,667	14,156,139	14,580,823	15,018,248
Miscellaneous	286,577				
Operating Transfers In	779,967	1,970,025	3,656,619	2,703,672	8,241,374
Total CIP, W/C, Other Revenues	23,290,674	18,392,108	20,954,897	20,915,028	26,524,412
Capital Improvement Program/Other Fund Expenses					
Fund 122 - Facilities Maintenance & Improvements	2,137,614	1,274,498	1,302,122	1,330,505	1,359,669
Fund 123 - Facilities Replacement	12,956,900	-	-	-	-
Fund 124 - Communications & Info Systems Replace.	13,029,617	2,081,964	1,691,819	5,135,936	5,583,434
Fund 133 - Vehicle Replacement	11,948,439	6,120,661	7,109,038	9,851,434	5,914,201
Sub-Total CIP Expenses	40,072,570	9,477,123	10,102,979	16,317,875	12,857,304
Fund 171 - SFF Entitlement	699,758	568,402			
Fund 190 - WC Self-Ins. (Cashflow Payments per Actuary)	9,856,181	10,252,260	10,767,801	11,309,266	11,877,959
Total CIP, W/C, Other Expenses	50,628,509	20,297,785	20,870,780	27,627,141	24,735,263
D. CIP SURPLUS/(DEFICIT)	(27,337,835)	(1,905,677)	84,117	(6,712,113)	1,789,149
ENDING FUND BALANCE (A+B+C+D)	145,069,586	144,468,058	145,163,077	138,699,876	141,010,530
Fund Balances					
Operating Contingency (10% of Expenditures)	28,782,851	30,087,001	30,697,902	30,946,815	31,468,320
General Fund Cashflow (OCERS Pre-Pay)	19,089,238	19,089,238	19,089,238	19,089,238	19,089,238
Community Risk Reduction - General fund	935,870	935,870	935,870	935,870	935,870
Donations & Developer Contributions	4,923	4,923	4,923	4,923	4,923
Fund 171 - Structural Fire Fund Entitlement	568,402	-	-	-	-
Capital Improvement Program	38,602,116	33,705,434	30,401,213	20,417,543	19,066,404
Community Risk Reduction Fee-Funded Capital Needs	886,075	886,075	886,075	886,075	886,075
Fund 190 - WC Self-Insurance	56,200,111	59,759,518	63,147,856	66,419,413	69,559,701
Total Fund Balances	145,069,586	144,468,058	145,163,077	138,699,876	141,010,530

Forecast Assumptions – Mid-Year Revised

Basic Assumptions:

The Adopted 2013/14 budget and the Five-Year Capital Improvement Plan, approved by the Board of Directors on May 23, 2013, form the basis for this financial forecast. Additionally, all adjustments proposed in the Mid-Year Review have been included.

General Fund Revenues:

- **Secured Property Taxes** – RSG’s Final 2013 Report provides the growth factors for this forecast. The following data show these projections of current secured property tax growth:

2014/15	3.02%
2015/16	4.18%
2016/17	4.37%
2017/18	4.15%

- **Public Utility, Unsecured, Homeowners Property Tax Relief, and Supplemental Delinquent Taxes** – All of these categories of property taxes are projected to remain constant during the forecast period.
- **State Reimbursements** – State reimbursements are expected to remain constant, pending more details from CAL FIRE.
- **Federal Reimbursements** – This revenue is projected to remain constant.
- **One-Time Grant/ABH/RDA Proceeds** – These are one-time only revenues that vary significantly from year to year and therefore are not forecasted beyond the current year. The FY 2013/14 budget was increased by \$4,197,935 for increases in grants and assistance by hire.
- **Community Redevelopment Agency Pass-thru Revenue** – RSG completed an RDA Excess Revenue Analysis of pass-thru and residual revenues from the dissolution of the redevelopment agencies dated 3/1/2013. The forecast figures come from this report.
- **Cash Contracts** – The forecast calculations are based on the Joint Powers Agreement and subsequent amendments and year-over-year changes are estimated between 2.0% and 3.8% per year, with a 4.5% cap. In addition, this revenue category includes projected John Wayne Airport contract proceeds with an annual 4% increase cap, which is projected to continue through the forecast period.
- **Community Risk Reduction Fees** – Projected FY 2013/14 revenue was revised upward at mid-year by \$1,237,000 for inspection services and \$1,900,000 for planning & development fees due to increased construction activity. In FY 2014/15 planning and development fees are forecasted to increase by an additional \$950,000. After FY 2014/15, Community Risk Reduction Fee revenue is estimated to grow by 3% per year through the forecast period.

- **ALS Supplies & Transport Reimbursements** – This revenue is estimated to remain flat.
- **Interest Earnings** – Assumes an annual return of 0.5% for 2013/14, 1.00% for 2014/15, 1.50% for 2015/16 and 2.00% 2016/17 and 2017/18.
- **Other Revenue** – This revenue source includes various items such as reimbursements for training and cost recovery for the firefighter handcrew.

General Fund Expenditures

- **Salaries & Employee Benefits** – S&EB is composed of the following factors:
 - ü **New Positions for New Stations** – Fire Station #56 in the Ortega Valley is anticipated to open on 1/1/15 and one of the new Rancho Mission Viejo stations is expected to open on 7/1/17.
 - ü **Employee Salaries** – Salaries reflect the extended MOUs. The forecast does not contain estimated increases based on the “trigger” formula. In addition, salary increases are not projected for the years that follow expiration of the current MOUs.
 - ü **Retirement** – Retirement costs reflecting the projected employer retirement rates are based on several sources (shown below) and adjusted for changes in employee contributions.

<u>Fiscal</u> <u>Year</u>	<u>Safety</u>	<u>General</u>	<u>Source</u>
2013/14	47.10%	31.70%	Scenario #1 in Segal Report dated 11/11/2011
2014/15	49.83%	36.70%	Phased-In Rates from OCERS Letter dated 10/2/2013
2015/16	51.90%	38.10%	Scenario #2 (7.25%) in Segal Report Dated 8/30/2013
2016/17	51.60%	37.90%	Scenario #2 (7.25%) in Segal Report Dated 8/30/2013
2017/18	51.40%	37.80%	Scenario #2 (7.25%) in Segal Report Dated 8/30/2013

The FY 2013/14 forecast includes a total of \$5.5 million in funding for accelerated paydown of the OCFA’s Unfunded Actuarial Accrued Liability (UAAL) with OCERS. This amount is comprised of the proposed mid-year adjustment of \$3 million, and \$2.5 million in retirement rate savings from prior forecast projections which used higher retirement rates.

In accordance with September 2013 board action, outer years of the forecast include projected UAAL paydowns based on retirement rate savings and an additional \$1 million per year for five years beginning in FY 2016/17.

- ü **Workers’ Compensation** – FY 2013/14 continues the “stair-step” up to the 60% confidence level for ongoing Workers’ Compensation costs as set by the Board of Directors. The 60% confidence level will be achieved in FY 2014/15 and maintained thereafter.
- ü **Other Insurance** – Medical insurance rates for firefighters are assumed to grow annually by 9%. For staff members, it is projected to grow by 10% annually. This category also includes \$40,000 for unemployment insurance.
- ü **Medicare** – Annual amounts are calculated at 1.45% of projected salaries.

- ***One-Time Grant/ABH Expenditures*** –Reflects the corresponding expenditures for the one-time grant/ABH proceeds mentioned above.
- ***Services and Supplies (S&S)*** – S&S is held flat unless a new fire station is built, specific increases have been identified by section managers, or one-time grant proceeds have been received.

Net General Fund Revenue

This figure equals the General fund Revenue minus the General Fund Expenditures.

Incremental Increase in General Fund 10% Contingency:

This is the amount needed to add to the General Fund 10% Contingency each year to maintain this category of fund balance at the required policy level of 10% of General Fund expenditures (less one-time expenditures).

Equity Payments

Equity Payments for FY 2013/14 are calculated based on procedures set forth in the Second Amendment to the Joint Powers Agreement which references various reports produced by the County Auditor Controller's office. Equity payments in outer years are projected based on property tax growth forecasts in RSG's Final 2013 Report. Pursuant to the Second Amendment to the Joint Power Agreement, if there are insufficient funds to make Irvine Equity Payments in FY 2014/15 and/or FY 2015/16, a portion of the Irvine Equity Payment may be deferred for two years.

General Fund Surplus/(Deficit):

This figure is equal to the Net General Fund Revenue less the incremental increase in the General Fund 10% Contingency. In years when there is a surplus, the amount is transferred to the General Fund Cash Flow (OCERS Pre-Pay) or to the CIP funds. In years when there is a deficit, the deficit amount must be drawn from the Cash Flow, then the 10% Contingency, and once those are exhausted, from fund balance for CIP.

Capital Improvement Program/Other Funds Revenue:

- ***Interest Earnings*** – Assumes an annual return of 0.5% for 2013/14, 1.00% for 2014/15, 1.50% for 2015/16 and 2.00% 2016/17 and 2017/18.
- ***State/Federal Reimbursement*** – The forecast assumes receipt of a \$920,000 ECC 911 telephone system upgrade project reimbursement in FY 2013/14 and \$890,000 in CDBG grant funds for improvements to Santa Ana Fire Stations #71 through #79.
- ***Cash Contracts*** – The forecast calculations are based on the Joint Powers Agreement and subsequent amendments.
- ***Developer Contributions*** – In FY 2013/14 Fire Station #56 construction and apparatus will be funded by the developer.
- ***Workers' Compensation Transfer*** – These amounts equal the General Fund Workers' Compensation budget.
- ***Operating Transfer In*** – This figure equals the Operating Transfer Out from the General Fund.

Capital Improvement Program/Other Funds Expenditures:

Expenditures for each CIP fund are based on the CIP Budget.

- ***Structural Fire Fund Entitlement (Fund 171)*** – Remaining funds will be expended through the forecast period.
- ***Self-Insurance Fund (Fund 190)*** – FY 2013/14 through FY 2015/16 are based on projected payments in the Rivelle Consulting Services January 2013 Study. FY 2016/17 and FY 2017/18 assume the same average year-over-year increase included in the Rivelle study.

Fund Balances:

- ***Operating Contingency*** – Reflects policy of 10% of the General Fund expenditures each year (less one-time expenditures and equity payments). General Fund deficits (if applicable) are deducted from this category of fund balance once the Cash Flow fund balance is exhausted.
- ***Cash Flow*** – The fund balance for the previous year, reduced by any General Fund deficits (if applicable).

Assigned Fund Balances

- ***Self-Insurance Fund (Fund 190)*** – Funding is set aside for Workers' Compensation claims. The amount is based on the prior year Workers' Compensation fund balance adjusted annually by the difference between the Workers' Compensation Transfer and the Fund 190 expenditures.
- ***Capital Improvement Program*** – This fund balance includes funding for future capital replacements and is reduced annually by the cost of capital assets and increased in years when there are Operating Transfers into the CIP.